Amph. Econ. Mon. H

AN

INQUIRY

INTO THE CAUSES OF THE PRESENT

HIGH PRICE

OF

GOLD BULLION IN ENGLAND,

AND ITS CONNECTION WITH THE

STATE OF FOREIGN EXCHANGES;

WITH

OBSERVATIONS

ON THE

REPORT OF THE BULLION COMMITTEE.

IN A SERIES OF LETTERS ADDRESSED TO

THOMAS THOMPSON, Esq. M.P.

ONE OF THE MEMBERS OF THE BULLION COMMITTEE.

BY JOHN HILL.

"Most of the difficulties that come in our way, when well considered and traced, lead us to some proposition, which known to be true, clears the doubt, and gives an easy solution of the question, whilst topical and superficial arguments, serve only to amuse the understanding, without coming *to the bottom of the question*, the only place of rest and stability for an inquisitive mind." *Locke.*

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AN INQUIRY,

&c.

LETTER I.

Dear Sir,

The inquiry in which you and the other members of the Committee of the House of Commons have lately been engaged, respecting the high price of bullion, appears to me to be of very great importance; not merely from its connection with those circumstances in which the country has been placed during the last two years, but especially as it leads to the consideration of a subject in which the permanent opulence and prosperity of the nation are very deeply involved.

I have for several years been of opinion, that a full and complete investigation of this subject would elicit information of no very pleasant or flattering nature, and the documents which your Committee have now published, have tended to confirm that opinion; you, however, will agree with me in thinking, that neither nations nor individuals should be deterred from an investigation of their affairs by the apprehension that they are in a declining state; on the contrary, they should rather be aroused to examination, and to the ex-

ercise of that prudence which may tend to restore their prosperity; and with this view of the subject, I shall offer no apology for those apparently gloomy and discouraging ideas which, in the progress of this correspondence, I may find occasion to bring before you.

The evidence published by your Committee, and the very numerous and important tables appended to their Report, throw considerable light upon the present state of our money, or the circulating medium of the country, and taken in connection with the evidence before the Lords' Committee of Secrecy, on the stoppage of the Bank of England in 1797, furnish very ample *data* to enable us to proceed in investigating the causes of those evils which are so loudly complained of—viz.: the high price of bullion, and the low rate of foreign exchanges.

Valuable, however, as the information which is given us unquestionably is, I am far from thinking that the deductions which your Committee have drawn from it, are entitled to our implicit confidence; on the contrary, the reasons which they assign for the evils complained of, appear to me to be fallacious, and the remedy which they recommend to the legislature to adopt is, in my opinion, wholly inadequate to its object, and calculated to produce great and extensive mischief in its application.

Actuated by these views, and encouraged by the spirit of our political constitution, which allows even to the obscurest of its subjects the privilege of discussing, in a temperate but unrestrained manner, every measure in which the national interest is concerned, I shall proceed to lay before you my opinion of the real cause of those evils which your Committee have been employed in investigating; and shall then venture to com-

ment on those parts of their Report which appear to me to be erroneous in their nature, and pernicious in their tendency.

I will endeavour in the first place to reduce the subject of our present discussion to a state of the greatest possible simplicity, and, to the best of my ability, to disentangle it from all extraneous matter. I will consider the precious metals in a state of circulation and exchange, abstracted from the apparatus of banking, negociation of bills, &c. &c. which, though they are valuable instruments in promoting the circulation of these metals, *have no essential connection with the real principles of that circulation.*

In a country like England, possessing no mines of its own,* it is evident, even to a mathematical demonstration, that the quantity of precious metals which we possess, (whether in the shape of coin or bullion, for in our present inquiry it is unnecessary to distinguish between them) must depend, solely and entirely, upon the state of our transactions with foreign nations; not merely on the difference of amount between our exports and imports of merchandise, or what is commonly called the balance of trade; but on the balance of all our receipts and payments with foreign countries, including the expenditure of govern-

* This observation is not intended to be understood in an absolute and unqualified sense, as both gold and silver have been undoubtedly found in our island at various periods; and during its occupation by the Romans, these metals appear to have been rather plentiful. Tacitus having observed in his life of Agricola, that "Britain produceth silver, gold, and other metals to reward its conquerors." So many centuries, however, have elapsed since these mines have been worked, or since their produce has had any sensible effect on the specie or bullion of the kingdom, and so little prospect is there at present of obtaining any future supplies from this quarter, that for all practical purposes, we may reason on the assumption of their non-existence.

ment, and a variety of other particulars which I shall bring in review before you.

The incorruptible nature of the precious metals, and the value which is universally affixed to them in every civilized country, point them out as the most natural and proper medium of liquidating national balances; and, in point of fact, we find they are continually passing from nation to nation for this very purpose, according to the fluctuations of trade, and the various other circumstances which produce the comparative riches or poverty of individual states. The expense and risk attendant on the transportation of metals, will almost always induce the traders in money to substitute bills of exchange in their stead, so far as those bills can be procured; thus, when Russia, for instance, has to receive a balance from England, instead of importing bullion from this country to liquidate it, she will endeavour to find some neighbour on the Continent, who has a balance to pay us; and by selling her bills to that neighbour, to be remitted to England, the balance will be adjusted with more convenience, and at less expense, than would attend the passage of bullion across the ocean.

But after all the assistance which the negociation of bills can thus render, there will be objects which they cannot fully accomplish. If we could suppose the whole of our national payments to be every year kept even, so that in the aggregate we had no balance either to receive from, or pay to, foreign nations, the transmission of bullion would still be necessary, inasmuch as the countries to which we have to pay, and those from which we have to receive balances, are often so remote from each other, that no bills of exchange can be negociated between them. Thus, for example, if the balance of payments is in our favour with

America, and against us with the Continent of Europe, we must as a nation be both importers and exporters of bullion; i. e. we must import it from America, where the balance is in our favour, and export it to those parts of Europe where the balance is against us.

Let us inquire, now, in what way the general account of this country with foreign nations will operate on the rate of exchange, and on the price of bullion at home.—

There are three distinct cases which may occur at different periods in the affairs of every country; and that I may be enabled to lay a clear and solid foundation for those arguments which I shall hereafter apply to the case now under investigation, I will proceed to examine the nature and effects of each of those three situations, in which a nation may be placed, applying my observations on each head to our own country in particular.

The first case I will suppose is, when our foreign transactions are such, as that we have on the aggregate no balance either to pay to or receive from foreign nations; or, perhaps, it would be more accurate to say, when we have just so much bullion annually to receive from foreigners, as will suffice to supply the annual consumption of our manufacturers of plate, &c. for domestic use.

In this case, we may go on for many years without any increase or diminution of the precious metals, and the supply from one quarter of the globe being exactly equal to the demand from another, the price of bullion will remain perfectly steady; the price, in fact, will be neither more nor less than the intrinsic value of the bullion, calculated by those rules which regulate its value in the great bullion market—the whole civilized world. It is also evident, that, under such circumstances, our exchange with those countries to

which we owe a balance, could never fall below par, to a greater extent than the expense of transporting bullion, and the merchant's profit upon it; nor with those countries which owe us a balance, could the exchange rise above par, to a greater extent than the expense and profit above mentioned.

If this assertion require confirmation, the following observations, I hope, will prove its accuracy.—

Let us suppose the par of exchange between Hamburgh and London to be (*as the continental merchant calculates) 34*s*. 3½ *d*. Flemish per pound sterling, the balance of payments to be against us, and the expense of remitting bullion, with risk and profit 5 per cent. The Hamburgh merchant who possesses a bill on London for 100*l*. will not sell it for less than 32*s*. 7*d*. Flemish per pound (5 per cent. below the above estimate of par) because, says he, I know *there is a sufficiency of exportable bullion in England,* and I can send my bill to London and exchange it for 100*l*. value in bullion, which will not cost me more than 5 per cent. to bring home. The same argument will apply precisely to a London merchant who holds a bill on those countries which are indebted to England on the balance.

The second case which I will examine is, when the balance of payments with foreign nations is decidedly in our favour, and continues so for a series of years.

It is evident, that in this case bullion will become every year more plentiful, and, like every other article of which the supply exceeds the demand, it will decline in price, until some new method is devised to employ the redundancy.

It is foreign to my present argument to enter

* Minutes of Evidence, page 73.—Folio edition.

at all into the question of domestic circulation, (this I reserve for a future letter) but I will endeavour to shew how this redundancy of bullion would operate in our transactions with foreign nations. First, with respect to the exchange. The quantity of bullion in the market being more than the necessary circulation of trade required, the holders would rather sell at something below its intrinsic value than keep it by them unemployed, and this would evidently raise all foreign exchanges in our favour. Suppose, for example, the redundancy of bullion in the market should reduce it 5 per cent. below its intrinsic value, and the state of our transactions with Hamburgh continue as under the last case, the exchange (even when the balance of payments was against us) would get up to par; for though the expense of sending over the bullion amounted to 5 per cent. the decline of 5 per cent. in its price in the English market would counterbalance that expense, and the Hamburgh merchant who held a bill on London for 100*l.* would rather send it to London, and import bullion in return, than sell it on the Hamburgh Exchange for less than 34*s.* 3½*d.* supposing, as before, that that is the real par, calculated on the intrinsic value of the money of both countries. This idea may be carried further: if bullion declined in the English market 10 per cent. and the expense of remitting it to Hamburgh continued at 5 per cent. the exchange of Hamburgh on England would be 5 per cent. above par, even when the balance of payments still continued against us. The exchange with countries whose balance of payments was in our favour would be influenced thus: in America, or any other distant country, from which the import of bullion would be attended with an expense of 8 per cent. the remitters would purchase bills on England,

at such a price above par as this 8 per cent. added to the depreciation of bullion in England would amount to; if bullion was depreciated 5 per cent. below its intrinsic value, the exchange of those countries would be 13 per cent. above par; if it was depreciated 10 per cent. the exchange would be 18 per cent. above par, and so on.

If the depreciation in the value of bullion was not sufficiently great, to take the whole redundancy out of the market by the mere decline in its price, I have no doubt that the surplus would be sent out of the country, to perform some of those inter-national transfers of capital, which will be the subject of consideration in a future letter.

The third and last case which I shall consider is, when the balance of payments with foreign countries is decidedly against us, and continues so for a length of time.

The operation of this case is in every respect the reverse of the last; the quantity of bullion in the market becoming every year less and less, the supply will be inadequate to the demand, and the price must rise proportionably above its intrinsic value; a sum is due to foreigners, and nothing but bullion can discharge it, the price of bullion therefore would run up, and the rate of exchange decline, till the country was exhausted of all its exportable treasure.

In this state of things it would be literally impossible that the balance of payments should be any longer against us, because we could have no means of paying an unfavourable balance. Our receipts from, and payments to, foreign nations must therefore be reduced to an equality, (or the balance must be turned in our favour) either by an increase of our exports of merchandise, a diminution of our imports and of the foreign ex-

penditure of government, or by some of those inter-national transfers of capital to which I have before alluded.

In one or other of the three situations which I have mentioned, this country is at all times placed, and I shall undertake the very unpleasant task of proving, that we are now, and have been for a considerable time past, in the last and most unfavourable situation of them all.

For the present, allow me to submit the doctrines contained in this letter to your very serious consideration: though I cannot pretend to have laid before you any fact which you are not fully apprised of from your own more extensive knowledge and experience, yet I flatter myself I have in some measure succeeded in simplifying those principles by which the price and circulation of bullion must ever be regulated, and that my illustrations will appear to you as convincing and decisive as to myself.

If so they will furnish the principles or premises to which I may continually refer, and from which I may conclusively reason in the farther progress of my investigation.

I am, &c.

LETTER II.

Dear Sir,

In my former letter I have briefly attempted to elucidate those principles, which in all cases must necessarily regulate the price and circulation of bullion, in the intercourse of nations with each other. I shall now proceed to examine the question of domestic circulation, to consider the connection between coin and paper currency in the internal traffic of a nation, and the manner in which the state of its internal circulating medium may operate on its transactions with foreign countries, and on the price of bullion.

In my last letter, I observed that the precious metals appear to be pointed out by nature as the proper medium of liquidating national balances, and I see no impropriety in adding, that they are also the most natural and simple instruments of facilitating the exchanges of property at home, and as such they have been used by most civilized nations which possessed them, either in the shape of bullion or of coin, from the time of Abraham* to the present day. While these metals constitute the only circulating medium of a nation, the nominal price of every article will be regulated by the proportion which subsists between the aggregate amount of the coin or bullion which the nation possesses, and the quantity of commodities which it has to circulate; whether those com-

* Genesis xxiii. verse 16.

modities be the product of its own agriculture and manufactures, or foreign articles procured by the exchange of its own merchandise.

But as almost all intelligent and industrious nations will increase the produce of their agriculture and manufactures at home, faster than they can increase their stock of precious metals by importation from abroad, they seldom proceed far in improvement, before they find their circulating medium become inadequate in its amount to the purposes for which it is wanted. In this state they are reduced to the necessity of supplying the defect by one or other of the following expedients:

1st. By reducing the nominal price of commodities in such a degree, that any given quantity of coin will suffice to circulate an increased quantity of merchandise.

2d. By debasing the coin itself in weight or fineness, so that the same nominal value is attached to a smaller quantity of gold and silver; or,

3d. By raising an artificial capital of paper, by which the circulating medium may be increased to almost any extent which the increase of trade requires, without any direct depreciation of the precious metals.

It is not very easy to trace with precision the particular instances in which the first of these effects has been produced; it must in general have been by a silent and almost imperceptible influence, as it is scarcely possible for any legislative or other public interference to be employed in producing it. An attentive perusal of the commercial history of our own country will, however, convince us, that for one or two centuries prior to the discovery of America, and for some time subsequent to that event, (viz. till the produce of its mines began to pour into Europe) a scarcity of the pre-

cious metals operated to keep down the price of corn and all other commodities.*

Of the second expedient, our own history records many instances. Before the reign of Edward I. the nominal pound sterling represented an actual pound (Troy weight) of silver: i. e. 11 oz. 2 dwts. of fine silver, and 18 dwts. of alloy; from that period down to the forty-third of Elizabeth, the silver coinage was reduced by various steps to its present standard, 1lb. Troy: i. e. 11 oz. 2 dwts. of fine silver, and 18 dwts. of alloy, being now equal to 3*l*. 2*s*. sterling in the silver coinage of the realm.

The debasement of the coin is at all times an odious measure, and liable to many objections, and since the forty-third of Elizabeth, has never been resorted to in this country. The great increase of our foreign commerce, with the new and powerful impulse which has, since the above period, been given both to agriculture and manufactures, has long since compelled us as a nation to adopt the more efficacious and less objectionable mode of supplying by paper the deficiency of the circulating medium.

While this paper currency is convertible at the option of the holder into specie, it is a most admirable instrument in promoting the extension of agriculture, manufactures, and commerce, and enlarging the sources of national prosperity; and in this state, the advantages it produces are abundantly sufficient to over-balance the trivial inconveniencies which may incidentally attach themselves to it.

It is evident, however, that under these circumstances, the circulation of paper is dependant solely

* See this subject more fully investigated by Dr. Adam Smith. Wealth of Nations, Vol. I. Chap. XI. Part III. first period.

upon public credit; upon the opinion which men in general entertain of the solidity of those persons by whom this paper is issued, and their ability to exchange it for cash, whenever any of the holders are disposed to apply to them for the purpose.

That the persons who issue paper should be able to give specie for the whole of it, is not to be expected, for in that case paper currency would be unnecessary and useless; whenever, therefore, it happens that public confidence is shaken, either by the fear of foreign invasion, or any domestic occurrences, an extraordinary demand, or run upon the bankers, may reduce them to the necessity of stopping payment. Such a demand, however, arising from temporary causes, is, in general, temporary in its effects; and when it is found that those who circulate paper to a greater extent than the precious metals in the country can discharge, are, notwithstanding, able to give substantial value in exchange for it, public confidence is very speedily restored.

But when the credit of paper currency is fully established in a nation; such a nation, either by the consumption of foreign articles to a greater amount than the value of its own exports, or by the profuse and improvident expenditure of its government in political and military operations abroad, may turn the balance of payments with foreigners so much against itself, as to drain away by degrees, the greatest part of the specie and bullion it possesses. In this case bankers of all descriptions will, in time, be deprived of the power of paying cash in exchange for their notes, to such an extent as the common demands of the public require; and when this is discovered to be the case, the system on which paper currency was first established, is, of necessity, brought to an

end. The circulation of paper must either be relinquished entirely, (and that too, at a time when the business of the nation can least of all spare it,) or the persons who issue such paper, must give up all pretence to liquidate it by cash. Legislative interference is, almost always, necessary to promote the circulation of a paper not convertible into cash, and when such interference is applied, it introduces a system of circulation entirely new, and which ought to be considered in a distinct and separate light. The state of things of which I am now speaking, has been fully exemplified in England, ever since the Bank Restriction Bill was passed in 1797.

It would be foreign to my present purpose to enter into an elaborate discussion of the general merits or demerits of the banking system, as it applies to the domestic trade of this or any other country; but I will venture to divide the commercial history of Britain, into three great and important periods, and endeavour to shew how the circumstances, in which the country has been placed during each of these periods, have operated on the price of bullion and on our transactions with foreign nations.

The first of these periods shall commence with our earliest civilization and commerce, and come down to the establishment of paper currency; or, in other words, to the issue of promissory notes, payable in specie on demand; allow me to call this period of time, *the state of commercial infancy.*

The second period begins with the establishment of a circulating medium of paper, convertible into specie, and terminates with the Bank Restriction Bill, in 1797; it shall, if you please, be called *the state of commercial maturity.*

The third and last period, the period of compulsive paper currency, is from 1797 to the pre-

sent time, and I will venture to call it *the state of financial decline.*

The first of these periods occupies so great a length of time, and is, for the most part, so extremely defective in authentic information, on many points of commercial and political economy, that it will be difficult in many cases to obtain sufficient *data* to enable me to trace the practical operation of the principles I am investigating. I will, however, endeavour to shew the natural effect of such a state of things, and to corroborate my theory by such facts as I am enabled to collect.

While the precious metals constituted the only circulating medium of the country, the price of bullion would be regulated by the demand for it, both in foreign and domestic trade; the gradual improvement in agriculture and manufactures, the increasing population and consequent consumption of every article of merchandise, would necessarily require a very considerable increase in the circulating medium, from the commencement of civilization and commerce in the nation to the year 1694, when the Bank of England was established, and the system of paper currency may be properly said to have commenced.

The debasement of the coin, which I have before mentioned, would, during all these centuries, increase the nominal currency of the nation, no more than in the proportion of 62 to 20, an increase by no means equal to the increased demand for it; the remaining deficiency must have been supplied by an increased quantity of precious metals obtained by commerce from foreign nations, in addition to the produce of those mines which at an early period were worked in our own country.

That it was so supplied may be safely inferred from the absolute impossibility of accomplishing

the object in any other way, till paper was called in to our assistance; and on looking over such documents as history has preserved, we may easily be reconciled to this belief. During the time in which the Romans occupied Britain, money appears to have been much more plentiful in the island than it was for several centuries after they left it. After the Norman Conquest the affairs of the nation became more settled, and, notwithstanding the great drains of cash by the crusades, by occasional continental wars, and by the regular and severe exactions of the see of Rome, the favourable trade of the country appears to have liquidated all, and left an increasing balance in our favour.

It is asserted by some historians, (though denied by others who have been more minute in antiquarian researches,) that from 1066 to 1216, no gold was coined in England; but all agree, that during that period foreign gold coins were very numerous, and many instances are on record of the great wealth possessed by individuals.

By a record preserved in the Exchequer, it appears that in 1354 our exports amounted to 212,338*l.* 5*s.* and our imports to no more than 38,383*l.* 16*s.* 10*d.* leaving a clear national balance of 173,954*l.* 8*s.* 2*d.** a considerable sum in those days; but our exports consisted of the great staple articles of the kingdom, wool, hides, cloth, &c. while our imports were a few expensive luxuries, the consumption of which was confined to the great.

On the death of queen Elizabeth, in 1603, the silver coin of the country was estimated at 2,500,000*l.* sterling, and the gold coin at 1,500,000*l.* together *l.*4,000,000, and after that

* Macpherson's Annals of Commerce, vol. I. page 553.

period no further debasement of the coin took place; but bullion continued to pour in so rapidly, that from—

1619 to 1638,	the coinage was	l.6,900,042
1638 to 1657,	do.	7,733,521
1660 to 1688,	do.	10,261,000
	Total,	l.24,894,563

The latter of these coinages would doubtless include part of the money of the former, which had been worn down by use and brought back to the mint for recoinage; part of it would be lost or worn out, some in all probability exported, and a good deal buried during the time of the civil wars.

In 1696 the quantity of specie remaining in circulation was estimated at 16,000,000*l.* and I should judge it to be near the truth.

There are other facts remaining on record which evince, that during the latter part of the period we are now considering, the specie of the kingdom increased in full proportion to the increase of its circulating products: about 1587, the wages of labour, &c. were considerably enhanced, owing to the increase of commerce, and the great accession of silver bullion from the mines of Mexico and Peru. In 1546 the interest of money was fixed by Act of Parliament at 10 per cent.; in 1624 it was reduced to 8 per cent.; in 1651 to 6 per cent.; and in 1714 to 5 per cent.

Though bills of exchange were used in England so early as 1255, and in 1381 a law was made concerning them, yet I have no means of ascertaining whether any, or what, rate of exchange was fixed for the regulation of our transactions with foreign nations.

The Act of 1381 *commanded,* that no remittance

should be made out of the kingdom but by bills of exchange, and it was not till 1663 that the exportation of foreign coin and bullion was allowed. We know the inefficacy of such regulations, but from all the means of judging which we have, I should think very little coin or bullion was in those times exported, except for the expenditure of government.

Indeed, in 1423 the parliament expressly permitted gold and silver to be carried out of the kingdom for military expenses.

During the time of which I am now speaking, we find many complaints by our historians of the poverty of our kings, and the scarcity of money in the kingdom, but so far as I have been able to ascertain, it is seldom or never attributed to excessive importations, or to an unfavourable state of trade, but always to the expenses of the government in wars, or to the circumstance of property carried beyond the seas for purposes other than commercial.

When this scarcity was felt, our kings issued their proclamations, and the Parliament enacted laws, for the absurd and nugatory purpose of preventing coin and bullion from being sent out of the kingdom in exchange for merchandise; and they devised other plans of a more rational and practicable nature.

The Act of 13 Henry IV. (A. D. 1412) which directed 30*s*. to be coined from a pound of silver instead of 25*s*. ascribes the necessity of the measure to "the great scarcity of money in the realm of England."

During the reign of Henry VII. an avaricious and frugal prince, we are told that "great abundance of gold and silver was yearly brought into the realm both in plate, money, and bullion;" and at his decease his own coffers were abundantly rich.

After his time, the mines of South America began to pour their treasures into Europe, but the wars and extravagance of Henry VIII. dissipated the national treasure beyond what the profits of trade could replenish; and in 1551 (4 or 5 of Edward VI.) we find national poverty again complained of, and a treaty entered into with the king of Sweden, by which it was stipulated, that if he would send bullion into England, he should be allowed in return to receive merchandise free of duty. The duty appears at that period to have been about 5 per cent. *ad valorem*, so that we may consider this stipulation as a bounty of 5 per cent. on the importation of bullion into England, and it seems reasonable to infer that the scarcity of bullion had increased its value 5 per cent. in the English market.

The historian further informs us, that the bullion which Sweden sent us in consequence of this treaty (though perhaps not very considerable in its amount) served to set the Mint at work, that good specie was coined, and base metal recalled.*

From these and many similar facts, which it is not necessary to mention, we may conclude, that while the precious metals form the only circulating medium of a nation, their price will depend on the proportion which subsists between the aggregate supply of them, and the *combined demand both of foreign trade and domestic circulation*; that in England their price continually rose (or in other words the value of the coin was continually debased) till domestic circulation was supplied; and that when the balance of payments with foreign countries was turned against us by wars and foreign expenditure, we were always obliged, either directly or indirectly, to give an advanced price for bullion,

See Hume, vol. iv. page 352, 8vo.

to enable us to keep up a sufficient supply for domestic purposes, and to liquidate our accounts with foreign nations. The poverty which this occasioned, could only be retrieved by increasing our exports of merchandise, decreasing our imports, or using greater economy in the foreign expenditure of government.

The second period which I am now to investigate, and which I have ventured to call *the state of commercial maturity,* comprises 103 years from the establishment of the Bank of England, and of paper currency in 1694, to the restriction of payments in specie in 1797.

When the credit of paper currency was fully established in the nation, we were enabled to increase our circulating medium to meet the increasing demands of internal trade, with but little increase of the coin; the produce of our agriculture and manufactures might and did go on increasing with a rapidity very disproportionate to the increase of the precious metals.

In this state of things, it was necessary for us to possess and retain in the country as much bullion as might at any time be called for by foreign countries, for the discharge of the greatest balance of payments which could appear against us, and as much coin, and bullion convertible into coin, as would supply the demands of those who might give a preference to coin in their domestic trade. I am very sensible that it is next to impossible to state any determinate proportion which the circulating coin of a country should bear to its paper currency, in order to meet the occasional demands which are made for the payment of notes, and to preserve the full credit of those notes in the estimation of the public.

Public opinion fluctuates so much with the fluctuations both of foreign politics and domestic oc-

currences, that occasions will arise, when twice the usual quantity of specie may be requisite.

Were I to speak with confidence on such a subject to a banker of your extensive experience, I should be guilty of the same presumption as the philosopher, who declaimed on war in the presence of Philip of Macedon; but after all, *there is* a proportion which coin should bear to paper, to maintain the permanent credit of the latter, and experience has fully proved that that proportion existed in England during the whole period which I am considering.

For though the occasional runs on country banks produced many stoppages, the Bank of England was at all times able to furnish the greatest quantity of specie which the public could desire in exchange for its notes; and those country banks which were possessed of substantial value adequate to all their debts, soon recovered their credit with the public, and were enabled to go on as usual.

Admitting then, that from 1694 to 1797, we had a sufficiency of coin, and bullion convertible into coin, to meet the demands of domestic circulation, it remains for us to inquire how we stood with foreign nations during the same period. So long as we could supply domestic wants, and leave a surplus of bullion adequate to the utmost demands of foreign nations, it is evident that the price of bullion would never rise above its intrinsic value, nor the exchange with foreign countries be materially depressed.

But when the combined demands of foreign and domestic trade exceeded the supply of the circulating metals in the market, the stock which should be reserved for occasional exigencies would decrease, and probably fall below its due proportion, and bullion would of course advance above

its natural and proper price. In this case, the coins of the country would in all probability be exported rather than bullion; for, notwithstanding the illegality of such exportation, when men could procure coin in any quantity at a lower price, weight for weight, than uncoined metal, they would melt down the former and export it, rather than the latter.

In examining the price of bullion, and the rate of exchange with foreign countries, it does not seem necessary to go farther back than the commencement of the present reign; but on the price of bullion and the rate of exchange from 1760 to 1797, I will offer a few remarks.

It does not appear from the accounts which have been regularly published in Lloyd's List, that from 1760 to 1795 bullion was ever more than 4*l.* 13*s.* 1*d.* per cent. above the Mint price,* nor so much as that for any considerable length of time. From 1760 to 1773 it fluctuated from 1*s.* 0¾*d.* to 4*l.* 13*s.* 1*d.* per cent. above the Mint price; from 1773 to 1783, it continued invariably a few shillings per cent. below the Mint; in 1783 and 1784, it was a trifle above the Mint price; but from 1784 to 1795, it was invariably about ½ per cent. below it; from the autumn of 1795 to the autumn of 1796, there is a remarkable chasm in the accounts published in Lloyd's List of the price of gold bullion; but Mr. Abraham Newland, in his examination before the Lords' Committee of Secrecy, March 28, 1797, asserts that within the last two years, gold had been at a higher price

* The price of gold at the Mint is 3*l.* 17*s.* 10½*d.* per oz. and at this price all the coinages are regulated; whoever takes gold in for coinage, will receive back guineas in the proportion of 3*l.* 17*s.* 10½*d.* for every ounce of his bullion; the weight of a guinea, when issued new from the Mint, being calculated at this rate.

than *4l. 4s.* per oz. and that the Bank of England had purchased it at *4l.* 1*s*, *4l.* 2*s*, *4l.* 6*s*, and a small quantity as high as *4l.* 8*s.* per oz.

It would, perhaps, require more information than I at present possess, to state *with certainty* what circumstances in our foreign or domestic relations produced the above variations of price: but I conceive the principal cause of the advance of bullion above the Mint price from 1760 to 1773 may be traced to the very depreciated state of the coinage during that period. In 1774, the gold coin was called in, a new and very considerable re-coinage was issued, and the price of coin afterwards exceeded the price of bullion (with very little interruption) by a few shillings per cent. down to the year 1795, when an enormous loan remitted to the Emperor of Germany, occasioned the great and sudden advance before-mentioned.

During the greater part of the period I am now considering, the exchange with Hamburgh was in favour of England; occasioned, I have no doubt, by the balance of payments with that part of the Continent being in our favour. In some instances it was on the contrary side, but in no case did it fall below par to a greater extent than the advanced price of bullion here, and the expense of transporting it; indeed the latter alone will, in almost every case, be found adequate to the depression. In 1760 and 1761 we were subsidising Prussia, and maintaining armies on the Continent, which turned the balance of payments against us, and reduced the exchange below par, but never more than 6 per cent. This was in November 1760; bullion was then 1*l.* 17*s.* 6*d.* per cent. above the Mint, and the freight, insurance, and profit of exporting it would at least make up the difference. The exchange was as much as 2, 3, and 4 per cent. below par in 1771, 1772, 1776, and 1777. During

the American war in 1781, 1782, and 1783, it was again depressed, but never more than $6\frac{1}{2}$ per cent. which was very little, if any thing, more than the expense of transporting bullion. After the commencement of the war with revolutionary France, the exchange continued invariably favourable to England till 1795, when, by raising a loan for Austria of 4,600,000*l.* we turned it 2 or 3 per cent. against us. After 1795, it rose again and continued in our favour till the Bank Restriction.

Upon the whole it appears to me sufficiently evident, from all the information I have been able to obtain, that during the period I am considering from 1694 to 1797, the balance of our foreign trade was so favourable as to provide for all the foreign expenditure of government, and to preserve a sufficient quantity of bullion at home for all domestic purposes. The precious metals appear to have increased till the latter part of this period, although by no means in such proportion as the accounts which government publish of the balance of trade might lead us to expect.

On the re-coinage in 1774, there issued from the Mint, gold coins to the amount of 20,447,002*l.* and it was supposed that about 5,000,000*l.* more were in circulation, which being of due weight were not brought in for re-coinage, making together 25,447,002*l.* in the nation, beside silver coin, of which I know not the amount. If then in 1696, the whole of our specie, both in gold and silver, was only 16,000,000*l.* it may reasonably be supposed that in seventy-eight years it had been nearly doubled.

The comparatively trifling variations in the price of bullion, and the fluctuations in the rate of exchange from 1760 to 1797 may, I think, be very easily accounted for, and will be found, on close in-

vestigation, to accord with the principles laid down in my first letter.

I come now to consider the state of things which has existed in this country from 1797 to the present time, and which I have before ventured to call *the state of financial decline.*

Reserving for a future letter, a more minute examination of those causes which produced the stoppage of payments in specie by the Bank of England, I shall proceed to consider the new situation in which the country was placed by the passing of the Bank Restriction Bill, and the manner in which that situation would operate on our transactions with foreign nations.

When the Directors of the Bank of England were no longer compellable to discharge their notes by specie, those notes became at once an universal substitute for coin, and it became unnecessary to retain any of the latter in circulation; the immediate consequence of this measure was, that all the specie which had passed in payment in our domestic trade, or been reserved in the coffers of our bankers to meet occasional demands, was set completely at liberty to be employed in any other way in which it might be wanted.

While our paper currency was convertible at the option of the holders into cash, it was necessary that the nation should at all times possess as much of the precious metals in bullion or in coin as would supply domestic trade, and be sufficient to liquidate the largest balance which could appear against us with foreign nations; whenever, therefore, an unfavourable balance of payments with foreigners began to infringe upon the stock which our bankers were accustomed to *reserve,* they would be desirous to replenish and support their stock of specie, and by increasing the demand, would raise the price of bullion.

The combined operation of a foreign and domestic demand, proceeding at last to such an extent, that all the specie and bullion in the kingdom were insufficient to supply it, brought on the catastrophe of the Bank, and this catastrophe, though the evident result of national poverty, became the instrument of converting that poverty into a state of apparent and temporary riches. Our inability, as a nation, to supply both foreign and domestic demands with the precious metals, obliged us to give up every attempt to supply the latter, and left all the specie and bullion we possessed at liberty to be exported wherever it was wanted.

I am fully aware, that the demand of cash for domestic hoarding, occasioned by the fear of foreign invasion, was one of the immediate causes of stopping the Bank; but in proportion as the fear of invasion subsided, its consequences terminated also; most people were too wise to lock up large sums of money for years in an unproductive state, and therefore, by degrees, they brought back their gold into circulation.

I am aware of the illegality of exporting the coins of the realm, but it would be a waste of time to offer arguments to prove to you, that no restrictive laws can prevent its exportation, when the price of bullion in the market rises so high above the Mint price, as to afford a considerable profit on melting down the coin.

As the subject of our present inquiries is one of considerable importance, it may be worth while to investigate it a little further, and to endeavour to render it still clearer by example. Let us suppose then, that in 1792 (the last year of settled peace) the stock of specie and bullion in the kingdom, amounted to twenty-five millions sterling, of which fifteen millions were in constant

circulation in the country, and ten millions were locked up in the coffers of the Bank of England, and of private bankers, and money-dealers, as a reserve for foreign exportation and any occasional exigencies at home.

Let us further suppose, that from the commencement of the war, in 1793, to the beginning of the year 1797, we had sent abroad for subsidies and military expenditure, a sum of five millions beyond what the balance of trade produced in our favour, and that in the month of February, 1797, our remaining stock of twenty millions, though rather more than adequate to the common demand, was insufficient to sustain the extra demands to which the circumstances of that period gave rise. With only twenty millions, both to supply domestic trade and liquidate foreign balances, we became unable to go on, but when the Bank Restriction Bill had nearly annihilated the demand at home, our stock was rendered amply sufficient to supply that foreign demand, for which alone it was then wanted; and in proportion as private hoards were emptied by the returning confidence of individuals, the sufficiency of our specie and bullion, to meet all the demands which arose for them, became more and more evident.

You will readily perceive, Sir, that in the preceeding propositions, I have no intention of defending the accuracy of the sums which I have brought into the estimate; my only object is to illustrate the principle for which I contend, and in this view, the accuracy or inaccuracy of the numbers I have used, is matter of little consequence.

Supposing, then, that the Bank Restriction Bill of 1797, by annihilating the greatest part of the demand for the precious metals, rendered the reduced stock which was remaining, more than adequate to the purposes for which it was wanted,

it is evident that no increase in the price of bullion could be expected, till a further period of expenditure had drained the nation of its exportable wealth, to such a degree as to render our stock of specie and bullion inadequate to the supply of the limited demand remaining for it. Under the system of compulsive paper currency, we are not to suppose that the demand for bullion would be confined *solely* to the quantities wanted for exportation, or that *every guinea* and *every ounce of gold and silver* would be quietly permitted to leave the kingdom.

The Bank of England would, for various reasons be induced to retain in its coffers a few millions sterling, either in coin or bullion; country bankers would, perhaps, retain a little, and many individuals in the kingdom, would continue a limited hoard. That the stock at home would be greatly reduced, by an unfavourable balance of payments abroad, can admit of no doubt, though I am equally inclined to believe, it would not be wholly annihilated.

Of thirteen years which have elapsed since 1797, more than eleven have been spent in war: we have subsidised the nations of the continent in repeated instances and to a great amount, and we have engaged in military operations abroad and kept up an immense establishment, both military, naval and colonial.

These and other circumstances appear to have reduced our stock of bullion so low, that when, in 1800, we were obliged to export it to the Continent to liquidate an unfavourable balance, occasioned by immense importations of corn, the price of gold rose in ten months from *3l.* 17*s.* 9*d.* to *4l.* 5*s.* per ounce; an advance of more than 9 per cent. It has declined again at some periods since, but never lower than 4*l.* per ounce; about $2\frac{3}{4}$ per

cent. above the Mint. During the year 1809, excessive importations from the Baltic, freights of unprecedented amount paid to foreign ships, the diminution of our exports to the Continent by the decrees of Bonaparte, and of remittances from thence, on account of American merchants, in payment of our exports to the United States; all these circumstances, aggravated by our military expenditure in Spain, Portugal, and Holland, have so evidently drained the country of its precious metals, as to raise bullion to a price which has never before been witnessed. In July last, the price of gold was 19 per cent above the Mint, and for some months before and after that period, it was never less than 15 per cent. above it. It is scarcely necessary to add, that in all these cases when bullion was above the Mint price, the exchange with Hamburgh was against us, though it frequently did not fall so much below par as would pay the advanced price of bullion in the English market, much less the expense of transporting it also.

This latter circumstance seems to prove that the balance of payments was against us with other parts of Europe, besides Hamburgh; for if Hamburgh alone had to receive a balance, the depression of the exchange would have kept a pretty regular pace with the advance of bullion and the expense of transporting it.

Upon a review of this last period I am decidedly of opinion, that since the year 1797, we have drained England, by foreign expenditure, of a very considerable part of the specie and bullion which at that time remained in it; that though the Bank Restriction Bill, by reducing the domestic demand, prevented us from being sensible of the deficiency for some years afterwards; yet our stock is now reduced so low as to be inadequate to the limited

demand which, at present, continues for it; and that this *real scarcity* of the precious metals in the country is the genuine cause of the present high price of bullion, and the depression of foreign exchanges.

I am further of opinion, that if the Bank of England should immediately recommence its payments in specie, if private bankers and individuals should bring their stocks into circulation, and all the ullion in the country, be either converted into coin or sold as bullion, the state of our transactions with foreign nations, would undergo a very material alteration. For a while, the price of bullion would decline, as there is yet, I conceive, enough in the country to supply all the demands which foreigners could make upon us, for some time to come, and with the decline in the price of bullion, foreign exchanges would, of course, become more favourable. But, if we should still proceed for several years to come, in the same plan of lavish expenditure, which we have witnessed since the commencement of the war, our coin and bullion would continue to be exported, till not a guinea nor an ounce of gold remained in the kingdom; and, as this period of complete exhaustion approached, the price of bullion would rise, and the exchanges fall, in as great or, perhaps, a greater degree than they have lately done; but after all was gone, absolute and imperious necessity would bring the balance of foreign payments even, or turn it in our favour. Having extended this letter to a great length, I subscribe myself,

Dear Sir,

Your's, &c.

LETTER III.

Dear Sir,

In two former letters I have considered the mode of settling accounts, and discharging balances, in the intercourse of nations with each other; the nature of an internal circulating medium; and the influence both of foreign and domestic transactions on the price of bullion and the rate of exchange. Before I proceed to apply the principles maintained in these letters to the precise question now under discussion, or to examine the evidence which was produced before your Committee, it may not be amiss to spend a little time in considering the various items which make up the aggregate debit and credit of our account with foreign nations, and constitute what your Committee have very properly termed, " The Balance of Payments."

The difference of amount between our exports and imports of merchandise, or what is commonly termed the balance of trade, must appear to every political economist, the first and most obvious cause of producing a balance either for or against us with foreign nations. By exporting the products of its own agriculture and manufactures to a greater amount than it imports of the merchandise of other nations, a country like ours, destitute of mines, may become rich in the precious metals by the bullion and coin which it receives from abroad in discharge of the mercantile balance; and although I shall in the course of this letter en-

deavour to prove that the common calculations of the balance of trade are founded on very inaccurate *data*, and ought not to be fully depended on, yet I have no hesitation in avowing my belief, that this balance is, on the average of years, in favor of England and that to a considerable amount.

Against this balance of trade, however, must be set off the whole amount which our government expend abroad, either in carrying on our own military and naval operations, in supporting our colonies and foreign establishments, or in subsidising our allies; and there is, in my opinion, too much reason to fear, that our public expenditure in this way generally amounts in time of war to as much or more than the balance of trade in our favour.

None of these particulars, I am convinced, have been overlooked by your Committee; but there are other transactions of a less obvious nature which may have a considerable influence on the balance of a nation's payments, and materially affect the sources of its permanent prosperity. In a former letter I have alluded to these under the denomination of "Inter-national Transfers of Capital," and shall now proceed to illustrate more largely what I meant by the expression.

In all countries which have proceeded far in the career of commercial prosperity, there is an accumulation of capital, which in some cases becomes redundant; and this capital, like every article of trade, declines in value as it increases in abundance. When the capital of any particular nation becomes too considerable to be profitably employed at home, the superabundance will generally be transferred to other countries where capital is less plentiful and its employment productive of greater profit. Thus it is not very difficult to trace an almost continual circulation of this kind

from countries which have become affluent by long and prosperous commerce, to those which are in the infancy of their prosperity, or which by any means may have become comparatively poor. When a nation's capital is inadequate to its wants, its poverty is most evidently manifested by the high rate of interest which it gives for money; and, as I believe that in all countries the rate of interest and the profits of trade bear in general a tolerably exact proportion to each other, it may be reasonably presumed, that in such countries the employment of capital, either in agriculture, manufactures, or commerce (especially the two latter) is attended with considerable advantage. This state of things naturally invites, and almost necessarily draws over, to the country so circumstanced, a part of the superabundant capital of other countries; monied men will lend to it for the sake of a greater interest than they can acquire elsewhere; manufacturers and merchants will remove to, and settle in it, with considerable property, and those merchants who reside in other countries will sell their goods to it on credit, and pay beforehand for their purchases in it, because they find such forbearance on the one hand and advance on the other, amply repaid by the profit on their transactions. It is almost superfluous to point out to you how exactly all this has been exemplified in Russia, which, during the last century, was raised to its present state of prosperity almost solely by foreign capital, especially the capital of England.

The same causes are calculated to produce the same effects in a proportionate degree wherever they occur; if a nation which, generally speaking, may be considered affluent and prosperous, is reduced to the necessity of making extraordinary exertions in a foreign country, the scarcity of money which those

exertions produce, is calculated to draw a foreign supply, so long as any contiguous country can be found, where capital is abundant and the rate of interest low.

Political as well as commercial circumstances may also occasion those national transfers of capital of which I am speaking; the fear of foreign invasion, internal convulsions and revolutions, any thing, in short, which is calculated to shake the security of property, may induce the monied men of one country to transfer their capitals to another, which they consider more secure than their own.

When capital is, by any of the causes I have enumerated, transferred from one country to another, and the owners of it remove themselves as well as their property, and permanently settle in the nation where their property is invested, such a nation is in every view enriched by the transfer. It increases its capital, and the number of its opulent subjects; agriculture, manufactures, and commerce improve, and the profits arising from the employment of its new capital are spent and remain in the country. But when the owners of the capital thus received continue to reside in their native land, and annually draw to it the interest or profit arising from the capital thus employed abroad, the case is materially altered.

The capital acquired in such a manner, though undoubtedly useful in the trade and improvement of the borrowing country, is calculated to produce an artificial and delusive appearance of wealth; and constitutes in effect a mortgage, by which the borrowing country is pledged to the lending one, and annually drained of the fruits of its industry to pay the interest. In this way a nation which has rendered itself poor in disposable capital, may for a considerable time conceal its poverty,

and exhibit an appearance of wealth, even while it is plunging itself deeper and deeper in debt; and the effect of its imprudence must sooner or later be very sensibly felt.

The interest paid to foreigners helps to turn the balance of payments against it continually, and when those foreigners are disposed to recal the principal, it may be very difficult to spare bullion or exportable property sufficient to discharge it.

How far these interchanges of capital with foreign nations have of late affected our own country it is very difficult to determine. Before the commencement of the war in 1793, our national capital was abundant, and the rate of interest low;* we were enabled to sell our goods to foreigners on credit, and pay in advance for what we purchased of them in return. I have no doubt but we are still enabled to trade on the same plan, but whether we pay money, and give credit to the same extent, I have not sufficient information to enable me to judge.

There is another view, however, in which I cannot help fearing that we have, during the last seventeen or eighteen years, impoverished our country by running in debt to foreigners; the convulsions of the Continent have, I apprehend, brought over considerable sums of money to England for more secure investment; and the high rate of interest (5 or 6 per cent) at which some of the loans to government have been furnished, would be very likely to draw over capital from Holland,

* As a proof of the low rate of interest in 1792, I do not refer to the legal rate; this has continued invariably at 5 per cent. for about a century past. A legal rate only fixes a maximum beyond which interest shall not rise; but when money is plentiful in proportion to the demand for it, the interest actually paid may decline beneath the legal rate to an indefinite degree. The price of the funds is in general a tolerably good criterion of the actual value of money in the market, and in 1792 the 3 per cents. were considerably above 90.

for instance, where the rate of interest is in general lower than with us. I should be very glad if my fears on that head could be proved to be without foundation; but as government themselves have admitted, that the annual interest paid to foreigners for their proportion of the National Debt (which interest is exempted from the charge of income tax) amounts to more than 700,000*l.* it is evident we have mortgaged the country in this way to the amount of 14,000,000*l.* sterling, the greater part of which debt, I conceive, has been contracted since 1793.

I have entered into these particulars for the purpose of directing your attention to a subject which is very likely to be overlooked, or not considered so fully as its importance demands; but my principal object is to shew, that our pecuniary transactions with foreign nations are of such a nature, as to render it next to impossible to ascertain what is the real balance of payments, in any other way than by observing *its effects* on the quantity of specie and the price of bullion at home.

So much, however, has been said on the balance of trade, and so great is the stress which some of our most distinguished legislators are disposed to lay on the accounts of this balance presented to Parliament by the inspector-general of imports and exports, that I shall enter at some length into the reasons which induce me to consider those accounts as too vague and indefinite to found any regular argument upon, or to govern the proceedings of the legislature.

1st. The inspector-general himself informs you, that in the accounts laid before Parliament, he does not pretend to ascertain the value either of our imports or exports according to the present market price of the different articles at home

or abroad, but that, having ascertained as nearly as he can the quantity of goods imported and exported, he calculates their value according to certain rates which were fixed so long ago as the year 1696. When particularly called on to give an opinion on the present value of our exports and imports, he does so, but with great diffidence, and only as matter of opinion, although founded on the best information he is enabled to collect.

2d. Were a new rate of valuation adopted in the inspector's office to meet the prices of the present day, or were the inspector annually to inquire among the best informed merchants of London, and adopt their estimate of the first cost of goods, I should still doubt whether it would be possible to ascertain the cost even of imports, within 5 or probably 10 per cent. You, as a merchant, well know that both the prices and the exchange abroad fluctuate so much in the course of almost every year, that it is very difficult to average the cost of goods in sterling money for a whole year's importation, even when the quantity and description of the goods are accurately known. But as the import duty on many articles is laid in general terms, and does not require any specification of their quality, or fix on any scale approaching to an *ad valorem* charge, the account of imports kept at all the custom-houses, is of such a nature as to increase the difficulty of fixing an exact value.

3d. The value of exports appears to me very difficult to ascertain with precision at the Custom House, even since the convoy duty was laid on and charged *ad valorem.* The value given by the exporters cannot always be depended on, although it is much more likely to be below than above the invoice cost. The value of the goods which are exported free of duty must, I apprehend, be estimated in a very loose and uncertain manner; be-

fore the convoy duty was charged, it does not appear that any other mode of calculating exports was in use than the old rate of 1696, and in this way the value of exports is even more vague and conjectural than that of imports. Goods imported are generally weighed or measured by the officers of the customs, and the quantity at least ascertained with precision; thus, we not only enter a certain number of packs of hemp, or matts of flax, but the weight is stated by the merchant, and accurately ascertained by the officers; but in the export of goods duty free the Custom House officers only take account of the number of bales of woollens, cases of cottons, casks of hardware, &c. and who can determine the average value of bales of woollen cloth, or cases of cottons within 10 or 20 per cent. of the truth?

4th. There are many particulars which enter into a calculation of the real balance of trade, that no Custom House accounts can pretend to reach; goods exported, for instance, are generally insured by British underwriters, and the premium added to the invoice price by the exporter and paid by the foreign consumer; but who can calculate the amount of the losses which these underwriters pay as a set off against those premiums. The goods we purchase of foreigners, which are lost or captured on their passage home, should also be placed to the debit of our national account of trade; but the amount of them is as uncertain as the former. The freight we pay on goods imported by foreign ships (which during the last year amounts to a most alarming and unprecedented sum) should be added to the invoice cost of the goods, and will swell the debit side of the account materially. The freights we receive on the goods, exported by British ships, ought in like manner to be placed on the credit side; but the amount of

freights, both on exports and imports, is unnoticed by the Custom House, and difficult to ascertain by any means with precision.

I again, however, repeat my assertion, that I have no doubt the balance of trade is, generally speaking, much in our favour, although I am persuaded, that for many years past, the balance of payments on the whole has been against us. In my future letters, I will make the best use I can of such accounts of trade and national expenditure as your parliamentary documents afford, but the state of our circulating specie and bullion at home is the point to which I intend chiefly to apply my arguments; the only certain criterion of the state of our national account with foreigners, and that by which, as a test, all the before-mentioned accounts must ultimately be tried.

I am, &c.

LETTER IV.

Dear Sir,

In almost every difficulty, which arises in the conduct of life, we may admit the truth of an old proverb, "The knowledge of a disease is half its cure;" when either nations or individuals are placed in a situation of more than usual difficulty or embarrassment, the plans which they adopt to retrieve their affairs, will of course be governed by their view of those circumstances which have produced their embarrassments; and should they erroneously attribute those embarrassments to any other cause than the right one, their attempts to procure relief will be more likely to aggravate, than to remove the complaint.

The legislators of England, it seems, have lately discovered that the price of bullion has risen to a most unprecedented height in this country: that foreign exchanges have been greatly depressed; and the difficulty of making considerable remittances to the Continent such, as even to change the destination of one of the greatest military expeditions ever sent out by this country; Mr. Huskisson himself having stated in the House of Commons, that our executive government was rendered incapable of meeting the wishes of Austria in employing an English army last summer in the North of Germany rather than

in Zealand, solely by the want of exportable money to pay its expenses.

That the cause of this national poverty deserves to be very closely investigated can admit of no doubt; but when your Committee adopt the opinion, that the high price of bullion is occasioned by the excessive issue of bank notes, and the consequent depreciation which those notes are *supposed* to have undergone, it appears to me that such a fatal error *in limine* may lead to the rash adoption of measures which would involve the country in extreme distress and embarrassment, without producing any national advantage whatever.

You will have already perceived that *I* attribute the evils so loudly complained of, solely and exclusively to the absolute scarcity of specie and bullion in the kingdom; and that, so far from considering this scarcity as the result of an excessive issue of paper, I consider that that issue is the only circumstance which has prevented the scarcity of precious metals from being sooner and more severely felt, and from producing a ruinous embarrassment in the trading and pecuniary concerns of the nation.

As this view of the subject is widely different from that which your Committee have taken, and as my future arguments will turn almost exclusively on its truth, I will now endeavour (so far as the information I can procure will enable me to do it) to prove that the principles laid down in my former letters are not only founded on correct theory, but fully corroborated by the present state of the nation, and established (so far as such principles can be established) by plain and indisputable facts.

In attempting to trace the fluctuations of specie in the kingdom, it seems wholly unnecessary for

our present purpose to go back any farther than to the general re-coinage of gold, which commenced in 1774 and appears to have terminated in 1777. During that period, the gold brought into the Mint, consisting partly of ingots or bullion, and partly of old and defective coins, amounted on its re-coinage to the sum of 20,447,002*l.* and the gold coins of due weight, which remained in circulation and were not brought for re-coinage, being estimated at 5,000,000*l.* we have a total of 25,447,002*l.* as the amount of all the gold coin in the realm.

As we have this account on the joint authority of the Right Honourable George Rose, and the late Earl of Liverpool, it may reasonably be presumed to be near the truth. Indeed the amount of the re-coinage is a matter of unquestionable certainty, being founded on accounts which are kept with the greatest regularity at the Mint. If there be any inaccuracy in the calculation, it is in the amount which was never brought in for re-coinage; this sum can only be conjectured, but as both Mr. Rose and Lord Liverpool have agreed in thinking that it was about 5,000,000*l.* we will venture to reason on it as correct.

At the termination of the re-coinage we began the American war, during which it can scarcely be supposed the balance of payments would be in our favour, or that the precious metals among us would increase.

The American war terminated in 1783, and it appears by the accounts of the Mint, that during six years from 1778 to 1783 inclusive, the coinage of gold amounted to 3,848,507*l.* 9*s.* 9*d.* a sum, in my opinion, much below the amount which would be exported during that period to defray the expenses of the war. I have no information of the amount of our foreign expenditure during

that period; otherwise, by comparing it with the official accounts of the balance of trade, a more accurate opinion might be formed on this point; it is however evident that the foreign expenditure of such a war must have been immense, and that expenditure being principally in the American colonies, which were then considered as a part of our own dominions, I should conceive that it would, in a considerable degree, be defrayed by an export of our coins.

The Earl of Liverpool himself is of opinion, that a very great portion of the coin was sent out of the kingdom during the American war, "for the "payment of his Majesty's foreign garrisons, his "Majesty's fleets and armies serving in foreign "parts, and the various charges necessarily con-"nected with them. In proof of this," adds his Lordship, "it is proper to observe that our ex-"changes with foreign countries are generally in "our favour in time of peace, but they are less "constantly in our favour when we are engaged in "war; and though a part of these coins so export-"ed may have returned to Great Britain in the "course of trade, a much greater proportion is ei-"ther still circulating in foreign countries, parti-"cularly those belonging to the United States, or "has been melted and converted into ingots for the "supply of foreign Mints, or has formed a part, "perhaps, of those ingots which have been sold in "the British market for the supply of the British "Mint."*

If I may venture to hazard an opinion on this subject, I should think that the gold coin remaining in England on the conclusion of peace in 1783, was much nearer to twenty than twenty-five millions sterling.

* Earl of Liverpool's Treatise on the Coins of the Realm, Pages 179 and 180.

From 1783 to the commencement of the war with France in 1793, our trade gradually recovered the shock it had received by the American war; and during the latter part of the period we are considering, it had extended greatly. It is somewhat remarkable that though the inspector-general's account represents both our exports and imports as materially increasing in their amount, yet for five years, from 1784 to 1788 inclusive, he estimates the balance of trade at 674,597*l.* against us; from 1789 to 1792 inclusive, he makes a balance in our favour of 10,816,736*l.*

By the Mint account it appears, that from 1784 to 1792 inclusive, the coinage of gold was 18,750,508*l.* 17*s.* 6*d.*; but when gold is brought into the Mint for coinage, a separate account is kept of the ingots which are produced by the melting down of light guineas, and those of foreign gold; and during the above-mentioned nine years, their estimate of the light guineas melted down amounts to more than eleven millions of the above eighteen, leaving only seven millions for the apparent increase of coin in circulation.

Supposing, then, we estimate the gold coin remaining in England, at the conclusion of the American war, at twenty millions, and admit the above seven millions as a clear addition made to it during the succeeding years of peace, it will make our stock on the commencement of the war with France in 1793, amount to twenty-seven millions; and so far as a conjecture can be formed, this appears to me to be very near the truth.

On the stoppage of the Bank in 1797, the inspector-general was called before the legislature to present and explain his usual accounts; he then represented the excess of exports over imports during three years of war, (1793 to 1795 inclusive) as amounting, by the usual mode of calcula-

tion, to 10,168,985*l.* 19*s.* 7*d.*; the account for 1796 could not then be fully made up, but estimating that year to have produced the same balance as 1795, it will make the whole balance of the four years 14,744,435*l.* 7*s.* He then explained the manner in which his accounts were kept; the mode of valuation adopted in 1696, and its great inferiority to the actual prices of the present day.—

Being desired to estimate as nearly as possible the *real* balance, he took time to consider the subject, and after mature deliberation declared his opinion, that during the four preceding years the real balance of trade in our favour had averaged 6,500,000*l.* per annum. For the sake of argument we will admit this account as correct, and it is at least as likely to be so as any other calculation which we have the means of forming.

By an account from the Treasury, dated 24th April, 1797, it appears that, during the four preceding years, our expenses abroad, including the Imperial Loan and advances to the Emperor,

amounted to the sum of - -	£32,810,977
From which let us deduct Mr. Irving's Balance of Trade for four years at 6,500,000*l.* per annum -	26,000,000
And it will leave a balance of payments against us of - - -	6,810,977

In round numbers it may be called seven millions; and deducting this sum from our estimate of 1793, it will leave a balance of twenty millions as the probable amount of gold coin in the nation on the stoppage of the Bank in 1797.

Lest, however, it should appear to you, that the stoppage of the Bank was occasioned solely by the alarm of invasion and the want of confidence at

home, and not by any drain for the exportation of gold, I will endeavour to corroborate the above estimate by a few more collateral arguments.—It was asserted by the gentlemen examined on behalf of the Bank, and admitted by Mr. Pitt himself, that at least as early as February 1796, the directors communicated to the chancellor of the exchequer their apprehension of danger from a diminution of specie in the Bank; and they attributed this diminution solely to the great expenditure of government for services abroad, and particularly the loan to the Emperor in 1795. When their accounts were afterwards laid before Parliament, it was found that their cash began to decline rapidly in the autumn of 1795, and continued to do so till their stoppage in February, 1797, as appears by the following account:

In March, 1795, their cash and bullion amounted to - - - -	£7,940,000
June - - - - - -	7,356,000
September - - - - -	5,792,000
December - - - - -	4,000,000
March, 1796 - - - - -	2,972,000
June - - - - - -	2,582,000
September - - - - -	2,532,000
December - - - - -	2,508,000
February 26th, 1797 (the time of their stoppage) - - - - -	1,272,000

I have copied this account from Macpherson's Annals of Commerce, vol. iv. page 411, without knowing precisely the authority on which it rests. Macpherson informs us in the preface to his work, that his "accounts illustrative of the affairs of the "Bank of England are chiefly taken from the official papers prepared for the inspection of Parliament," which papers he had been permitted to peruse in manuscript, by the favour of Lords Sid-

mouth and Redesdale. The account published by the Lords' Committee of Secrecy is not so circumstantial as this, but it corroborates it in substance; and in the account of the affairs of the Bank at the time of the stoppage, February 25th, 1797, the two accounts so nearly agree, as to give considerable credit to Macpherson's account. At that period, the Lords' Committee say, that the stock of the Bank in cash and bullion, bills discounted, money lent, and various other articles, amounted together to - - - 6,924,790

Macpherson states it,

Cash and bullion - -	1,272,000	
Bills discounted - -	2,905,000	
Lent to the East India Company - - -	700,000	
Various other articles -	2,050,680	
		6,927,680

To return from this digression; since 1797, I have no account of the foreign expenditure of government, but have no doubt whatever that during the twelve years of war which we have since had, it has considerably exceeded the whole balance of trade in our favour. In the four years from 1793 to 1797, I have estimated the balance of payments against us (from the accounts published by government) at 6,810,977*l*, or something more than 1,700,000*l*. per annum. During one of those four years, the loan to the Emperor of Germany was so unusually large, that it would scarcely be reasonable to take those years as a fair specimen of the general impoverishment occasioned by the war; but if we estimate the average balance of payments against us since at one million per annum, it will on my former calculations reduce the present stock of specie in the nation to about eight millions sterling; and I confess this

appears to me to come very near the probable truth.*

The accounts of the Bank, which are now before me, never include a balance of cash and bullion on hand to a greater amount than 8,608,000*l.* and in general not more than six or seven millions, in times of tranquillity and confidence.

If then six or seven millions were thought a sufficient stock, at a time when the Bank was liable to be called on for the payment of its notes, is it not probable that four or five millions would be judged sufficient now, when all that the Bank possesses is an unproductive article, and not at all wanted for the purpose of circulation?—I shall therefore venture to estimate the amount of gold at present reserved in the coffers of the Bank of England (exclusive of bullion) at four millions. From the notorious paucity of guineas apparent in common payments, we may conclude that the quantity in actual circulation is very small indeed. Of half guineas and seven shilling pieces, there is, of necessity, a much greater number. Let us estimate the amount of gold in circulation at two millions.

What is locked up by country bankers is much better known to you than me; I suspect, however that your fraternity calculate interest too nicely

* In an estimate of this nature, we must consider the interest paid to foreigners on their property in our funds (which has of late years amounted to 700,000*l.* per annum) as an addition to the foreign expenditure of the nation. On the other hand, the capital which during the war has come over from the Continent to be invested in the funds, forms an article on the credit side of the national account of cash, and has operated to the whole extent of the capital so invested in favour of the national balance of payments. I have not the means of ascertaining what proportion of our present debt to foreigners (about fourteen millions sterling) has been contracted since 1797; but should suppose not much less than one half of it.

adequate to the interest of the capital employed in it, and the reasonable remuneration of those who conduct it, such trade is a national benefit, and any interference of the legislature to restrict it would be, in the highest degree, irrational and unjust. On the other hand, when the profits of such trade fall below the above-mentioned interest and remuneration, the trade becomes an evil, not to the nation at large, but to those individuals who conduct it, and the personal interest of the latter will be sufficient to curtail the excess of their business, and reduce it to its proper amount, without any legislative interference whatever. I admit, however, that it is highly necessary that the directors of the Bank should be restrained by government from advancing money at a lower interest than the legal rate; as they possess the means of creating capital almost *ad infinitum* at little or no expense to themselves, their personal advantage might induce them to make advances at 3 or 4 per cent. for the sake of extending their issues, which would disable the real proprietors of money from entering into competition with them, and be productive of very great injury and injustice to the latter. On this point I am completely at variance with the governor and deputy-governor of the Bank, who are represented as expressing their decided opinion, that if the rate of discount were reduced to 4 or even 3 per cent. the public would possess the same security against the over issue of their paper as at present. This opinion appears to me so completely indefensible as it stands in the Committee's Report, that I cannot help thinking it is not there stated with sufficient clearness. If Mr. Whitmore and Mr. Pearse meant to assert, that a general reduction of the rate of interest through the country, arising from the abundance of real

money in the market, and affecting all money lenders universally, would not weaken the check which now exists upon an over issue of bank paper, I fully agree with them. Whatever be the rate of interest legally established in the nation as a maximum which no lender of money shall exceed in taking, if the Bank be restricted from lending at a lower rate, it will, in my opinion, be quite sufficient to prevent their paper from being issued to an excess pernicious to the monied interest at large.

But if, on the other hand, they really meant to inform us, that while the legal rate of interest continued as at present, the Bank might be allowed to discount below that rate, without producing an excessive and pernicious issue of its paper, I conceive no assertion can be more fallacious in its nature or dangerous in its tendency. The legal interest of money is now 5 per cent. and the great demand of borrowers for it at that rate proves, that the actual value of it in the money market is not below the legal rate. If, then, the Bank should begin to discount at 4 per cent. all money proprietors would be compelled to lend on the same terms, or the borrowers (at least, all mercantile borrowers of sufficient solidity) would go to the Bank for the assistance they wanted. No fair competition could be maintained between men who had real capital to lend out, a capital on the interest of which, perhaps, their very livelihood depended, and a great chartered company who were legally empowered to raise at pleasure a capital of paper which cost them nothing. In the present state of the commerce and pecuniary transactions of the country, the Bank of England is rendered useful by accommodating the public to the full extent which their necessities require, with a circulating medium which is always the represen-

tative of substantial value, and well adapted to the purposes of trade. On the true principles of such an establishment, the directors ought not to become competitors with the real proprietors of money, or to supplant them in the lending business; but only to follow after those proprietors and fill up the chasm in circulation, which the real monied interest are incompetent to do: while they are prohibited from discounting below the legal rate, the monied interest are not likely to be injured, and have no cause of complaint; but if ever the directors of the Bank are permitted to reduce the rate of interest at their own pleasure, their establishment will become highly detrimental, and call loudly for legislative restraint.

Much has been said to prove that the present paper currency of England has been depreciated in value by the increase of its quantity, and indeed as to its power of purchasing commodities it undoubtedly has; but I shall venture to add, that it has been depreciated in no other way, and to no greater degree, than our coin itself has been depreciated. This deserves a distinct consideration. It must be allowed by the opponents of my system, that the coins of the realm, *as such,* are of no greater value, and will go no further in the purchase of commodities, than the paper of the Bank of England, or of other establishments of unquestionable solidity. To become of greater value than paper, these coins must, either at home or abroad, be melted down into their original state of bullion. That this is frequently done, and considerable profit derived from it when the price of bullion is high, I have no doubt; but it is a profit not only illegal but radically unjust, and those who acquire it must be considered as obtaining their individual advantage at the public expense, exactly in the same way as the merchant who

smuggles goods chargeable with duty, enriches himself at the expense of the country and of fair traders. In all countries where regular government is established, the coins are considered as in some sort the property of the sovereign, who issues them out for the use and convenience of his subjects, and by his "image and superscription" affixes the value at which they shall pass in exchange: whether this value is affixed above or below the general price of those metals of which the coin is composed, no injury is done to individual subjects; the image of the sovereign renders certain pieces of metal the tokens of a certain amount of property, and these tokens become, by universal consent and usage, the measure of estimating the price of labour and commodities, and of all the pecuniary transactions of life. The labourer who works a week and earns his guinea, has no just reason to complain, that the law prohibits him from melting it down to sell for twenty-four shillings, nor does he, in point of fact, sustain any loss by the prohibition; while the restrictive law continues, it would be an act of gross fraud upon his countrymen at large, to receive a guinea in reward for that labour which he has contracted to perform for twenty-one shillings, and then sell his sovereign's coin to go abroad, for twenty-four shillings, making a profit to himself of three shillings at the nation's expense. I say at the nation's expense, and so it undoubtedly is; when government undertake a coinage, they generally fix the value of their coin by the price which bullion bears at the time of the coinage; that is, they affix to the coin a price somewhat above the cost of the bullion, in order to defray the expense of the coinage, but not so much above it as to open a temptation to the fraudulent to counterfeit the coin. The price of bullion, we know, is

continually fluctuating with the foreign demand, and the demand for domestic manufactures, but it is indispensable to the good of a country that the coin should remain perfectly steady ; when the price of bullion falls below the Mint, any individual who should coin it into money, and fabricate his sovereign's mark would be guilty of gross fraud upon the country at large, as coins are the property of government, and government alone, as the representatives of the nation, should acquire the profit (if any) which arises from fabricating them.

On the other hand, when bullion rises above the Mint, the melters of the coin defraud the nation at large, by taking away that public treasure, which cannot be replaced but at an additional expense, an expense which the nation at large must bear. To allow the coins to fluctuate in value with the fluctuation of bullion, would introduce endless confusion and disorder into every kind of business, and be productive of no advantage whatever; were the laws which prohibit the melting or exporting of coins to be repealed, those individuals who have them now in their possession, would derive a little temporary advantage; but it is absurd indeed to suppose, that the condition of any class of society would be bettered by it. In the wages of labour, or the sale of goods, coin would be given in less quantity as it increased in value, and if the principle of selling the coin by weight were once established, it would of course follow that on any change of circumstances which should introduce an abundant supply of bullion, the price might decline so much as to cause paper to bear a premium ; thus, when bullion was scarce, paper would be depreciated, and when plentiful, paper would sell to profit.

I hope these observations will be thought suf-

ficient to prove the fallacy of the opinion so warmly maintained by many, that bank-notes are now at a discount, and that the price of bullion above the Mint is the measure of their depreciation in value below specie.

When any government (like the revolutionary government of France) forces upon its subjects a paper currency, and those subjects are doubtful whether such paper can ever be exchanged for substantial value, they will of course estimate it lower than coin, and purchase the latter by a superior quantity of the former; but happily this is not the case in England; the solidity of the Bank is unquestioned and unquestionable; coin, *as coin*, is of no more value than its notes, nor will any wise man purchase it at a higher rate, unless for the fraudulent purpose of defacing and melting it.

This, then, is precisely my idea of the difference between a paper that is, and one that is not, depreciated; paper is really depreciated when the holders of it will give a premium to obtain coin as a greater security; but it is not depreciated when they give a premium to obtain it merely to re-convert into bullion; the latter transaction proves nothing but the existence of circumstances which offer temptation to fraud, and of persons who are ready to fall in with the temptation.

I am, &c.

LETTER VI.

Dear Sir,

In my last letter I have endeavoured to prove, that on the plan which the Directors of the Bank have adopted, to regulate the issue of their paper for the accommodation of trade, there has not yet been, nor is it at all likely that there will be, any *permanent* excess in the amount of such issue; and that, when on any occasion the spirit of commercial speculation induces merchants to apply for a greater amount of discounts than the real necessities of trade require, the evils resulting from such temporary excess will fall on the mercantile interest alone, and by no means on the nation at large. I have also ventured to express my doubts whether a real excess of paper currency issued on the present plan of the Bank (supposing such excess to be really issued) would produce that rise in the price of commodities of which your Committee speak; but as the subject is of great importance, and my ideas upon it are much at variance with those of the Committee I will devote this letter to a more minute and circumstantial investigation of it.

The whole strength of the argument which I am about to combat appears to have been drawn by your Committee into the following positions:

" If the gold coin of the country were at any " time to become very much worn and lessened in " weight, or if it should suffer a debasement of its " standard, it is evident that there would be a pro-

" portionable rise of the market price of gold bul-
" lion above its Mint price: for the Mint price is
" the sum in coin, which is equivalent in intrinsic
" value to a given quantity; an ounce, for exam-
" ple, of the metal in bullion; and if the intrin-
" sic value of that sum of coin be lessened, it is
" equivalent to a less quantity of bullion than be-
" fore. The same rise of the market price of gold
" above its Mint price will take place, if the local
" currency of this particular country, being no
" longer convertible into gold, should at any time
" be issued to excess. That excess cannot be ex-
" ported to other countries, and not being con-
" vertible into specie, *it is not necessarily returned*
" *upon those who issued it; it remains in the channel*
" *of circulation, and is gradually absorbed by increas-*
" *ing the prices of all commodities.* An increase in
" the quantity of the local currency of a particu-
" lar country, will raise prices in that country ex-
" actly in the same manner as an increase in the
" general supply of precious metals raises prices
" all over the world. By means of the increase
" of quantity, the value of a given portion of that
" circulating medium in exchange for other com-
" modities is lowered; in other words, the money
" prices of all other commodities are raised, and
" that of bullion with the rest."

As this extract contains the strength of their cause, I will endeavour to look it fairly in the face, and bring the validity of every part of it under strict investigation.

1st. I readily admit that any debasement in the standard of our coin; or any diminution of its weight by wearing, would reduce its value on a comparison with bullion, because both bullion and coin are articles *intrinsically valuable* in themselves, and their value will depend on their comparative weight and purity.

2d. It is also a self-evident truth that an increase in the general supply of precious metals beyond the increase of commodities, especially while those metals constitute the only medium of circulation, will raise prices all over the world; but

3d. I cannot admit that a currency of paper is precisely similar in its nature to a currency of the precious metals, or that an increase of the former would produce any such effect on the price of commodities as would be produced by an increase of the latter, and for the following reasons:

The precious metals being possessed of *intrinsic value* can always be *forced* into circulation; if any nation were fortunate enough to discover in its territory a new mine of gold, it would avail itself of the discovery and turn it to the best advantage, although by bringing a large additional supply into the market, it might depress the price of gold all over the world. The nation to which the mine belonged would not be deterred from prosecuting its individual profit, by the fear of injuring other proprietors of gold; nor would any civilized nation refuse to purchase the produce of the new mine, if it were offered equally cheap in proportion to its intrinsic purity, with the produce of the old mines.

Paper currency, on the other hand, having no intrinsic value, cannot be forced into circulation; there must exist some adequate cause in the pecuniary transactions of mankind to bring it at first into existence, and after it has been created, its permanency will depend on the permanent continuance of those circumstances to which it owed its origin; while men find it to conduce to their convenience and advantage, they will promote and encourage its circulation, but when it ceases to recommend itself by real utility to society, it will become extinct of itself.

Again, when the precious metals are brought into circulation, their intrinsic value will for ever prevent the possessors from giving them up to voluntary destruction; their increasing abundance may greatly diminish their value, but they will always of necessity retain so much value as to preserve them in existence, and render their employment in circulation and commerce productive of a certain portion of real profit. Those who possess a property in these metals will employ them to the best advantage they can, and will rather make a small profit by employing them in trade or a small interest by the loan of them, than suffer them to remain entirely unemployed and unproductive.

But paper currency can be circulated no longer than the public at large find it worth while to pay interest for the use of it, to those by whom it is issued; and an interest, on my principle, fully adequate to the general value of money.

Had the precious metals increased in England as fast as the increase of commodities and taxation, it is more than probable that paper money had never existed; and should any future circumstances arise, to render these metals sufficiently abundant to supply all the wants of circulation, the present system of banking will be nearly annihilated; so far, at least, as respects the issue of notes.

In my last letter I have considered, at length, those circumstances which require an extension of the circulating medium, beyond what the metals can supply; and which have rendered it necessary in England, to call in the aid of paper to fill up the chasm. I have endeavoured to shew that this paper, being continually chargeable with interest, will be borrowed of the bankers no longer than the trade of the country enables the borrowers to em-

ploy it in such a way as is productive of profit, adequate to the interest, and a mercantile remuneration besides to the traders. This circumstance alone, will for ever preserve a grand and decisive line of distinction between a currency of the metals and a currency of paper; of such paper, I mean, as is issued by the bankers of England.—The intrinsic value of the metals, forces them into circulation and preserves them there; and thus the increase of their quantity, necessarily tends to raise the price of commodities; while paper currency, by the want of intrinsic value, can never take the lead in circulation, but only follow the demands of the public and accommodate itself to their wants. An increase in the quantity of commodities, produced by agriculture and manufactures, or imported by commerce, with an increase of prices necessarily occasioned by taxation, calls for increasing supplies of the circulating medium, in so urgent a manner, that men of substantial property, who lend their credit on paper to the public, are enabled to obtain from that public, a considerable interest on the amount of their issues: but it has been well observed by the late governor of the Bank of England, (Mr. Whitmore,) that the amount of such issues, is of necessity limited by the real wants of circulation, "as no one would pay interest for a bank-note that he did not want to make use of." When your Committee assert that because bank paper is not convertible into specie, it is not necessarily returned upon those who issued it; they seem to forget that *every note which the Bank Directors issue in discount to merchants*, is *necessarily returned upon them within three months, at farthest, from the time it is issued*, in discharge of those very bills on which they make their advances.

It is the continual recurrence of the mercantile

demand, which preserves the notes in circulation; and if that demand should cease, the notes thus issued would disappear. Let the Bullion Committee convince the merchants and bankers of London, that the many millions they are continually borrowing are unnecessary to the circulation of the kingdom, and that the interest which they pay for them may very properly be saved, and within three months we shall find every note of the Bank of England disappear from circulation, and returned into the coffers of the Bank; except such notes as are advanced to government, in anticipation of the taxes, and for other purposes.

Let them next convince the Lords of the Treasury, that the circulating medium is excessive, and public economy will induce them to refrain from paying an unnecessary interest; and thus, in a little time, the advances made to government will return also; and the issues of the Bank be completely annihilated.

Admitting, however, as I have already done, that bank-notes, on the present system of the paper currency of England, may be *occasionally* issued to excess, let us inquire in what manner such occasional and temporary excess, would operate on the price of commodities. The Bullion Committee have assumed as an incontrovertible axiom, that an excess of bank paper, "not being convertible into specie, is not necessarily returned upon those who issued it, but remains in the channel of circulation, and is gradually absorbed by increasing the prices of all commodities." I trust, however, that I have already proved, that the paper of the Bank of England, being never forced into circulation, but only lent out on interest, as the demands of the public require it, is necessarily and very easily returned upon the issuers when the circulation becomes overcharged. The holder of a bank-note

cannot indeed demand specie in payment of it, but as the notes are always issued in exchange for mercantile bills, or for some other valuable consideration, they return continually to the Bank, to redeem the pledges on which they were advanced; and should no fresh pledges be brought in to require a re-issue, the excess of circulation is annihilated at once.

In times of great mercantile speculation, a demand may be made on the Bank for greater advances in discount, than the trade of the country can long employ to advantage; and when such advances are invested in merchandise, I grant that they cannot always be returned to the Bank as soon as the excess is discovered. The superabundant issue of paper is employed in producing or importing a greater quantity of goods, than the regular demand of the market can take off; and the holders of such goods must therefore wait a considerable time, before they can turn them into money, and return to the Bank the capital which is wanted no longer.

But so far am I from believing with your Committee, that this excess of paper, when once issued, must remain in circulation for ever, and be gradually absorbed, by increasing the prices of all commodities, that it appears to me evident to demonstration, that consequences the very reverse would follow; that an excessive issue of circulating medium will always tend to reduce, and not to increase the price of goods; that the injury resulting from its excess will fall on those classes of society, and those alone, by whom the excess is employed; and that the evil, if left to itself, will infallibly work its own remedy.

To render this subject as clear as possible, it may be necessary first to observe, that every article of merchandise has two prices, a natural and an arti-

ficial price. The natural price is that at which it can be permanently afforded for sale, so as to allow an adequate remuneration for the land, the labour, and the capital employed in producing it. The artificial price is that at which the commodity is actually sold in the market; this price is regulated on every particular occasion, by the proportion which exists between the supply and the demand; it sometimes rises above, and sometimes falls beneath the natural and proper price; but the natural price forms the centre on which it turns, to which it continually tends, and from which it cannot, for any considerable length of time, very greatly depart.

A circulating medium of paper, lent out on interest, must be actively employed by the borrowers in some branch of agriculture, manufacture, or commerce; and to come under the denomination of excessive, its employ in one or other of these branches, must bring to market a greater quantity of goods than the usual demand of the consumers can take off: in this case it is evident that those who overstock the market will be obliged to sell for less than the usual profit, for no profit at all, or for very considerable loss, according to the proportion in which the market is overstocked. This excessive competition, occasioned by an abundance of circulating medium, will reduce the rate of profit in every branch of business, and benefit the consumers at the expense, sometimes even by the ruin, of the producers. This state of things cannot, however, continue long; it is one of those cases which naturally and infallibly produce the contrary extreme; if the market be overstocked with any article until it falls below its natural price, it may be confidently expected, in a little time, to return to its proper level, or even to become understocked till prices advance too high.

Were it not too tedious and elaborate for our present discussion, I could easily shew, in theory, how this principle would be exemplified, and, in point of fact, how it has been exemplified, in almost every branch of agriculture, manufactures, and commerce. One instance has lately occurred in the commerce of this country, so remarkable, and so directly applicable to my argument, that I cannot refrain from noticing it at length.

At the close of the year 1807, the exclusion of British shipping from the ports of Russia and Prussia, the war with Denmark, and the embargo in America, operated to throw the trade of England out of its regular and accustomed channels, and to create new and unexpected difficulties, in the way of most importations of merchandise. In consequence of this, much of the capital which had been previously employed in importation, was directed to other purposes, and the quantity of foreign goods, brought to market, became smaller than usual; the advances of the Bank of England, in discount to merchants, continued nearly as they had been for some years before; whereas in a brisk state of trade they might have been expected to go on progressively increasing; but so far was this stationary state of the circulating medium from producing any decline in the prices of commodities, that those prices increased with a rapidity which has been seldom witnessed, and enabled the comparatively few merchants, who made importations from abroad, to obtain much more than the usual profit on their goods.

The enormous profit which attended the importations of 1808, excited an extraordinary spirit of speculation in the year 1809; the Bank of England was called upon for more than its usual advances, and to accommodate the merchants, the directors made an increase of about two millions in the issue

of their notes; so far, however, was this issue from occasioning an increase in the prices of merchandise, that it was the direct and very evident cause of depressing those prices much below the import cost, and of accommodating the nation with foreign merchandise at so cheap a rate, as to cause the ruin of many, and a great loss to almost all our importing merchants. On examination, it will be found that the increase of bank-notes, and the decline of most articles of foreign merchandise went on together, as will appear more fully from the following table, which I have made up from the London Price Current, and the accounts of the Bank of England, at various periods, from the commencement of 1809, to March, 1810, the latter being the latest date to which the amount of bank-notes, in circulation, has been published by the Committee.

For the sake of brevity I have confined this list to a few articles of merchandise, principally the produce of Russia, but one of these articles, hemp, being a naval store of first rate importance, deserves the particular attention of your Committee and of the legislature.

	Bank Paper in Circulation.				
	Feb. 1, 1809. £17,560,060	May 1, 1809. £18,646,880	Aug. 1, 1809. £19,811,330	Nov. 1, 1809. £19,949,290	March 2, 1810. £20,998,710
Russian Hemp (Peters. clean)	£125 per ton.	£110	£100	£84	£75
——— Flax (Peters. 12 heads)	140 ———	125	105	103	94
——— Tallow (yellow candle)	114 ———	94	91	93	74
Memel Timber - - - - -	16 10s. pr. load	16 16s.	15 15s.	14	12 10s.
Stockholm Deals - - - -	98 per C. a 120.	105	95	85	72

To conclude this head: I am firmly persuaded that the common opinion of paper currency being the cause of the increasing price of commodities, and of all the necessary articles of life, is wholly without foundation; that the increase of taxation is the real cause of advancing prices, and that while bank-notes are not forced into circulation, but only given out as the real demands of the public require them, a paper currency will not be the cause, but the consequence, of an increase in the price of commodities, in the quantity of commodities, or in both of these conjointly.

I am further of opinion, that on the present system both of country banks and of the Bank of England, the circulating medium of the country, if left without restraint, will accommodate itself with sufficient accuracy to the real occasions of trade; and that any occasional deviation from its due proportion will, in a very little time, work its own remedy without any legislative interference whatever.

Having now considered the manner in which our paper currency is connected with the price of commodities, I shall next proceed to a more particular examination of those principles by which the price of the precious metals is regulated.

In the judgment of your Committee, these metals are precisely similar to any other article of merchandise. "The price of all commodities," say they, "has risen, and gold appears to have "risen in its price only in common with them." "If this common effect," they add, "is to be "ascribed to one and the same cause, that cause "can only be found in the state of the currency "of this country."

On this extract I have to remark, that so far as the precious metals become articles of consumption by the manufacture of plate, &c. they are pre-

cisely similar to any ordinary article of merchandise; and I shall also admit that whether they are considered as articles of consumption, or merely of circulation and exchange, their value will be regulated by those general principles which operate on every other species of mercantile commodity; in other words, the general price will be regulated by the intrinsic value of the labour employed in procuring them, while the actual price on any particular occasion will rise above or fall below the natural price, according to the proportion which exists between the supply and the demand at any particular time and place.

But as only a small proportion of the precious metals (at least of gold) is consumed in manufactures, and by far the greatest quantity devoted to the purpose of circulation, either as coin or bullion, there are some points of view in which they must be considered essentially distinct from every species of consumable commodity, and in which their price will be found subject to much less fluctuation than almost any other article of trade.

For a considerable time past, there has been a gradual increase in the price of almost every article of merchandise in England, occasioned by the progressive increase of taxation. This taxation sometimes operates in a direct and immediate manner in the shape of a duty levied on a particular species of merchandise, but more commonly it operates in an indirect and remote way, by raising the price of labour and of the articles of human subsistence; and thus rendering it necessary for the producers of other commodities to require an additional price for the articles which they bring to market, to enable them to defray the additional expense of their own maintenance.

The first of these causes has not in any degree

operated on bullion, as there is no duty whatever charged on its importation into England; nor has there been (so far as I have the means of ascertaining) any additional expense in procuring it from the mines in America.

The second cause which renders taxation productive of an indirect advance in the price of merchandise, would certainly have operated on bullion and raised its price, as the Committee state, in common with other commodities, had it not been counteracted by another principle, almost peculiar to the article we are considering, but of which your Committee do not seem to have made a proper estimate.

The grand difference between bullion and almost every other species of saleable commodity is this: that bullion (with the exception of such part as is worked up in manufactures, which part we are now leaving out of account) has no value in use separate from its value in exchange; it is not, like consumable commodities, necessary to be constantly re-produced to supply the urgent wants of mankind, but continues to circulate for centuries as the token or representative of a certain value which the circumstances and convenience of society have induced them to affix to it. And it being of great importance to the order and regularity of commercial transactions that whatever article is adopted as the medium of circulation, should remain as nearly as possible stationary and constant in its own value; the price of bullion is never altered except under the influence of such circumstances as render an alteration indispensably necessary.

The crop of wheat which is produced in England this year, will be nearly consumed in twelve months; a re-production is therefore required to supply the first necessities of our people; and

whatever price is necessary to afford the growers a fair compensation for the land and labour employed in its cultivation, the consumers must submit to pay. Wheat, therefore, is one of those articles whose price must keep pace with the general pecuniary transactions of the kingdom. The produce of our coal mines, too, which is continually required in consumption, must keep pace in its price with the general rate of labour, and be continually advancing with the constant depreciation of money.

On the other hand, there are many articles of merchandise possessed of no value but in use, which are subject to great fluctuations in the demand for them, occasioned by the competition of other articles with which they enter into comparison; and these fluctuations in the demand, regulate the price often with no reference at all to their cost, or to the general pecuniary transactions of the country. Twenty years ago, the expense of fitting out a ship for the Greenland fishery was much smaller than at present; but the price of whalebone was then 3, 4, or 500*l.* per ton, while it has lately been much below 30*l.* owing to the caprice of the ladies, who have refused to admit it into some of the articles of their dress.

Now bullion, with the exception I have before admitted, has been prevented from partaking of the general rise in prices.

1st. By being wholly exempt from any direct imposition of duty or taxation.

2d. By its own inconsumable nature, which preserves it in almost continual existence, and renders fresh supplies less necessary of it than almost any other article.

3d. By the circumstance of its having no value in use separate from a value in exchange, and the

interest which commercial nations consequently have in preserving its price as nearly stationary as possible.

4th. By the adoption of paper currency, which, in most of the commercial nations of Europe, and in England especially, has entered into competition with it, as a medium of internal circulation, and greatly decreased the demand for coinage.

On all these accounts it might reasonably be expected, that the price of gold in this country would NOT be affected by those circumstances which have increased the price of commodities in general; and in point of fact it is, I think, easy to prove that it has not been so affected, and that the view which your Committee have taken of this subject, is perfectly indefensible.

The Committee endeavour, at some length, to prove that gold being itself the measure of the price of commodities, cannot with propriety be said to advance in price at all, but must be considered as stationary, while the price of all other articles is advancing or declining around it. This distinction appears to me to be of little or no importance. To debate whether the price of gold has lately risen in this country, or the currency of the country fallen, would, I apprehend, be little better than a strife of words, and productive of no practical result. It is admitted on all hands, that the *nominal* price of gold has risen from 3*l*. 17*s*. 6*d*. to 4*l*. 10*s*. per oz. and the causes of that advance we have now to investigate.

The Committee appear in the commencement of their inquiries to have imbibed an opinion that some general rise in the price of gold had of late years taken place, on the continent of Europe, to occasion an extraordinary demand for it here, and a consequent advance of prices in the English market; but they soon obtained satisfactory proof that this opinion was groundless; and that the ad-

vance of prices was confined to England alone.

I therefore fully agree with them that the advance we have lately witnessed, has arisen from something peculiar in the circumstances and situation of our own country; but that this advance has not been occasioned by or had any connection with the state of our paper currency, I have already attempted to prove in theory, and will now endeavour to support by facts.

Since the establishment of the funding system in England, every war in which the nation has engaged, has added considerably to the permanent amount of its taxes, and in consequence to the permanent price of labour and of all the necessary articles of life. During the present reign, this advance has been at least as evident and as rapid as in any former period of our history; on his majesty's accession to the throne in 1760, we were engaged in war both on the continent of Europe and in America, which did not terminate till 1763: from 1777 to 1783, we were engaged in war with most of our own American colonies, and several European nations; and from 1793 to the present time, (with the trifling interval of about one year and a half) we have prosecuted the most expensive contest in which the country was ever involved.

That the price of commodities in general has greatly advanced since 1760 is too evident to require any proof; perhaps it is not too much to say, that on the average every article of merchandise has doubled; but the price of bullion has been so far from partaking of this general advance, that from 1760 to 1795, it continued almost exactly stationary with the exception of some trivial alterations noticed and accounted for in my second letter. From circumstances noticed in the same letter, it rose suddenly and rapidly in 1795 and 1796; but from 1797 to 1799, it was again low and station-

ary; although the Bank Restriction Bill of 1797, which brought a great and sudden increase of paper into circulation might have been expected to keep up rather than depress the price of bullion, and there been, as your Committee conceive, any natural and necessary connection between the price of the latter and the quantity of paper in circulation. In 1760, the price of gold bullion fluctuated from 3*l.* 18*s.* 6*d.* to 4*l.* 0*s.* 1*d.* per oz. while in 1793, 1794, and a great part of 1795, it was never more than 3*l.* 17*s.* 6*d.* but continued invariably at that rate: during the last ten years, it has never been less than 4*l.* and has very recently experienced a most rapid and sudden advance, from causes which I have, in my second letter, attempted more fully to trace.

If then the doctrine of your Committee were true, that "gold has risen in its price only in "common with other commodities, and that this "common effect is to be ascribed to one and "the same cause," on what principle can it be accounted for, that during a period of thirty-five years from 1760 to 1795, while almost every other commodity was rising so rapidly around it, the price of bullion did not advance at all? On what principle can the decline of its price after 1797 be accounted for, when the Bank Restriction had given so sudden and so additional an energy to that system of circulation which the Committee consider as the sole cause of advancing that price? And finally, how can the Committee's doctrine be reconciled with the circumstances of the last few years? In 1800, while the bank paper in circulation was only 15,000,000, the price of gold was 4*l.* 5*s.* per oz.; in 1804 and 1805, when the issues of the Bank had increased to 16, 17, and 18,000,000, gold had declined to 4*l.*

If paper currency operates on bullion, how can

these contrary fluctuations be accounted for? And though the great advance in the market price of gold during the year 1809 has happened to be coeval with an extraordinary issue of bank-notes, yet how will the Committee prove that the latter has been the cause of the former, while bank notes are an article of internal circulation alone, and the gold purchased at such high prices, has been for exportation to foreign countries, the Committee themselves having admitted that gold, which could be sworn off for exportation, has been higher by 3*s*. or 4*s*. per oz. than that which could not be sworn off?

On every view which I can take of this subject, whether theoretical or practical, I must recur to my former opinion that the issue of bank-notes has no connection whatever with the price of bullion, except as by taking the place of coin in domestic circulation, they decrease the demand for the precious metals, and so far operate to keep down their price.

By the tables appended to the Report of your Committee, it appears that for many years back, the produce of the American mines has been rather on the increase than decline; and as no general rise in the price of gold has taken place in Europe, it may be fairly presumed that throughout the civilized world collectively, the supplies have been pretty nearly equal to the demand.

England is the only exception we have to contemplate, and had our imports of bullion been sufficient to supply domestic wants, and keep full pace with the demand for exportation, I have no doubt both gold and silver would have been now as low as they were fifty years ago, even though the issue of bank-notes were double its present amount.

The foreign expenditure of government has

long exceeded the balance of trade, drained the country both of its coin and bullion, and brought on that scarcity and dearness of the precious metals which we have begun at last to discover and lament. To adopt such measures as will turn the balance of foreign payments in our favour, and bring back into the kingdom the specie and bullion which we have lost, is the only remedy for the evil, while all tampering or interference with the paper circulation of the country appears to me a species of political quackery, calculated to introduce many new diseases without at all extirpating the old one.

I am, &c.

LETTER VII.

Dear Sir,

The Committee, after an anxious consideration of the subject before them, "report it to the House "as their opinion, that the system of the circu- "lating medium of this country, ought to be "brought back with as much speed as is compa- "tible with a wise and necessary caution, to the "original principle of cash payments at the op- "tion of the holder of bank paper."

In this opinion I most fully and cordially concur with them; not because I doubt the possibility of conducting the affairs of the nation with our present circulating medium for an indefinite period to come, were our foreign expenditure properly curtailed; but because I consider a circulating medium of specie, and of paper convertible into specie, much preferable to a circulating medium of paper which is not so convertible, being persuaded that if we should again succeed in bringing back into the kingdom so much specie and bullion as would be sufficient to support the credit of a paper currency convertible into specie, together with an additional reserve for occasional exigencies, it would be attended with the following advantages:

1st. It would enable government, on any political emergency, to make national efforts involving foreign expenditure, with more convenience to themselves, and with less injury to the country,

than they can at present do. A long continuance indeed of such expenditure beyond the balance of trade, would drain us again of cash, and bring back affairs to their present state; but as occasions will sometimes arise to render such expenditure necessary, it is highly desirable that there should always be a reserve of exportable treasure in the kingdom to meet those emergencies; and that, when the quantity so reserved falls below its due proportion, it should be replenished as speedily as possible.

2d. It would render it necessary for country bankers to keep by them a greater quantity of cash, in proportion to the issue of their notes, than they now do of Bank of England paper: this would throw the business of country banking into the hands of men of greater property, or more prudence, than some of them at present possess, and afford to the public a greater security against the insolvency of bankers.

3d. It would furnish a more regular, salutary, and certain check than any now existing, upon those *occasional* over-issues of paper which, by encouraging the spirit of mercantile speculation, produce so much individual bankruptcy and distress, and so much occasional disorder and mischief in the pecuniary transactions of the nation.

The *desirableness* of a return to the system of cash payments is, however, a very different thing from its *practicability*, to the latter of which the Committee appear to have paid little attention. Though they have made no hesitation in avowing their opinion, that the Bank should be *compelled* to resume its payments in specie within two years from the present time, they have given themselves no concern whatever about the means by which the directors shall be enabled to do so; but very coolly and deliberately inform us that this busi-

ness (the most important business which the Committee had to attend to) must be left to the directors themselves.

"To the discretion, experience, and integrity of "the directors of the Bank, your Committee believe that Parliament may safely intrust the "charge of effecting that which Parliament may "in its wisdom determine upon as necessary to "be effected;" and again

"The particular mode of gradually effecting the "resumption of cash payments ought therefore, "in the opinion of your Committee, to be left in "a great measure to the discretion of the Bank, "and Parliament ought to do little more than to "fix, definitively, the time at which cash pay-"ments are to become, as before, compulsory."

I cannot forbear to observe, that the paragraphs just quoted, impress my mind with a very high opinion of the ingenuity of those by whom they were written, and appear calculated to answer two important purposes.—

1st. To make to the Bank directors, by a well-timed compliment, some little apology for the censures which had been previously thrown upon them, especially at the conclusion of the third head of the Committee's Report, where we are told, that the recent policy of these directors "in-"volves great practical errors which it is of the "utmost public importance to correct" and that some of their erroneous opinions "must be re-"garded as in a great measure the operative cause "of the continuance of the present state of "things."

2d. To relieve the Committee themselves from the heaviest part of their burden, by throwing it, in the most polite and complimentary manner that can well be conceived, upon the shoulders of others.

If you will allow me to have proved in my se-

cond letter that the stoppage of payments in specie by the Bank of England has in no degree been occasioned by the conduct of the directors of that institution, but solely by the conduct of government, who have expended abroad the cash which should have been reserved at home for internal circulation; it will follow that those directors have an unquestionable right to look up to government for the removal of those evils which the conduct of government itself has occasioned.

But the Report of your Committee on this head, appears similar to that of a company of physicians, who being called to prescribe for a bed-ridden patient, should very gravely express their opinion, that to walk in the open air would be most conducive to his health, while they left to the friends and family of their patient the task of devising means by which he should be enabled to walk; believing, forsooth! that "to the discretion, experience, and integrity" of those friends, the physicians "might safely entrust the charge of "effecting that which" those physicians "had "in their wisdom determined upon as necessary "to be effected."

That a company of statesmen so highly distinguished for abilities and knowledge as the members of the Bullion Committee, should be incapable of discerning the consequences of the measures which they have recommended, I cannot for a moment presume to suppose; but they have contrived with great ingenuity to keep those consequences, as much as possible, out of sight; from a full conviction, I have no doubt, that with all these consequences attaching to it, an attempt to compel the Bank of England to pay their notes in specie, would be very difficult, if not wholly impossible, to defend.

What they, however, have kept in the back-

ground, it shall be my business to bring forward and expose to public view; in doing which I trust I shall be enabled more fully than ever to convince you, that no legislative interference whatever with our present circulating medium, can be productive of national benefit.

Your Committee do not profess to believe, that within the next two years, or within any future period on which we can now calculate, the circumstances of the nation are likely to undergo such an alteration as will furnish our bankers with specie enough to keep up the circulating medium of the country to its present extent, when that circulating medium is confined to cash, or paper convertible into cash. They very fairly admit that a serious expectation of the return of payments in specie must " enforce a preparatory re- " duction of the quantity of paper, and all other " measures which accord with the true principles " of banking."

This is a proper view of the subject, though it is much to be lamented that the Committee have not pursued its consequences further: to fill up the chasm they have left, I will endeavour to form some calculation of the proportion in which our circulating medium must be reduced before payments in specie can be resumed, and then proceed to consider what effect this reduction would produce both in our foreign and domestic transactions.

To obtain such information as would enable us to reduce this calculation to any thing like mathematical accuracy, is wholly impossible; but there is latitude enough in the subject to render such accuracy needless; a very rough estimate will suffice. In 1796 or 1797, previous to the stoppage of the Bank of England, I conjecture that the specie was reduced to 20,000,000; the average issue of bank-notes was then about 10,000,000, and esti-

mating the notes of country bankers at 10,000,000 more, gives 40,000,000 for the whole circulating medium. one half of which sum was specie, and the other half paper. At this period the specie of the country appears to have been reduced as low as it could be reduced with safety to public credit, while the notes of our bankers were convertible at the option of the holders into cash.

While the circulating medium of the country consists solely of cash, and of paper convertible at the option of the holder into cash, a certain proportion of specie will be always afloat in circulation among those classes of society who, from want of confidence in bankers, or from any other motive, may prefer cash before notes of any description; and a further quantity must be always reserved in the coffers of bankers to meet occasional demands; supposing, then, from the experience of the nation in 1796 and 1797, that under the system of paper convertible into specie, the whole circulating medium of the country cannot well exceed double the amount of cash which the nation possesses, let us inquire to what extent a compulsive return to payments in specie would reduce the amount of our present circulating medium. The notes of the Bank of England may at present be estimated at about 21,000,000 sterling; the notes of country bankers at about 21,000,000 more, and the coins of gold used in small payments, at 2,000,000, making a total of 44,000,000, exclusive of silver, as the amount at present in circulation. If the whole amount of specie reserved in the country (as estimated in my fourth letter) does not exceed 8,000,000, with an addition of 1 or 2,000,000 of bullion, which might (though at a considerable loss) be converted into coin, we could not now return to payments in specie, without reducing our circulating medium to 18 or 20,000,000, viz.

to less than one-half its present amount. For the sake of argument, we will reason on the probable reduction of the circulating medium to exactly one-half its present amount, and endeavour to shew how this reduction would operate, first on the inernal affairs of the country, and next on our transactions with foreign nations.

When the circulating medium was thus reduced, it would be no longer possible to conduct the business of the country to its present extent without a proportionate reduction in the nominal price of every species of property. If prices continued as at present, half the circulating medium would only suffice for the continual sale and transfer of half the products of our present agriculture, manufactures, and commerce; but when the nominal price of land, buildings, shipping, merchandise, labour, and every other species of saleable commodity was reduced to one-half, the business of the nation might go on without interruption. At first sight it might appear that this is the most desirable effect which could be produced, as it would enable us to return to the original and salutary principle of a circulating medium always convertible into cash; and as money on being reduced to half its quantity would become doubled in value, and one pound go as far in the purchase of every necessary of life as two pounds do at present, no individual would sustain any injury by the change.

But when it is considered that the reduction of paper, which would so evidently reduce the price of every other kind of property, could not possibly operate on the present possession of money, or on money contracts, or undertakings of any description, which had been entered into before the reduction of the circulating medium took place; the only effect of such reduction would be to raise the money proprietors to twice their present height

is the scale of society, at the expense of all other classes, and that by an operation violent and unjust in the very highest degree; as will appear in the following instances :—

1st. This year I purchase an estate for £2000, and borrow £1000 on mortgage; next year my estate is reduced to half its present nominal value; the consequence would be, that the mortgagee would take the whole of the estate, as the value of it would be reduced to just the sum borrowed.

2d. Two West-India planters import into England the sugar produced on their estates; one of them sells his sugar immediately on arrival, and lays up his money for future employment; the other keeps his sugar till the reduction of paper takes place, and then sells it for only half its present price; the former is elevated and the latter depressed by the measure.

3rd. A landlord lets his estate on lease at a certain money rent, which the tenant can afford to pay so long as the produce of the farm will sell for its present prices; on the reduction of the circulating medium, his corn and cattle will only sell for half what they do at present, and the same nominal rent being payable as before, the cultivator must ultimately be ruined.

4th. A father bequeaths to one of his sons an estate, which lets for £1000 a year, and to another of them £20,000 in money invested in the securities of government. Both of them are at present equal in income, but as soon as the legislature has carried into effect the suggestion of the Bullion Committee, the former can obtain no more than £500 a year for the rent of his estate, while the latter will still continue to command his full interest of 1000*l.* a year from the government.

5th. The finances of the nation would be

thrown into the utmost disorder and confusion by the measure.

That part of the revenue which arises from income, or from *ad valorem* taxes of any description, would decline with the general decline in the quantity of money; while all other taxes and duties on merchandise would in real value be double their present amount; an increase which in many cases would be oppressive beyond endurance, and could not indeed be paid.

The expenditure of government would be deranged in a similar way. The whole interest paid on the national debt requiring of necessity the same nominal sum as at present, would be double in real amount, and become an intolerable burden to the nation, while the proprietors of stock always receiving the same interest or dividends, would be enriched in a manner most irrational and unjust. The salaries paid to the army and navy and the public officers of government, should be reduced in proportion to the increased value of money, but it would be extremely difficult for the legislature to ascertain the precise amount of that increase, nor could they without much difficulty and opposition effect that reduction of salaries which the interest of the nation required. The other branches of public expenditure, for military and naval stores, &c. &c. would keep pace with the general increase of the value of money, and decline in their just and natural proportion.

That the reduction of circulating medium would exalt the money proprietors and money stipendiaries in the scale of society at the expense of all other classes of our countrymen, is indeed evident beyond dispute; but the *injustice* of such an operation may not be so readily seen or admitted, especially by those whose interest would be promoted by the proposed alteration.

The continual depreciation in the value of money has long been a matter of complaint, and most writers having erroneously attributed this depreciation to the increase of paper currency, instead of attributing it to the increase of taxation (of the latter of which the increase of currency is only a consequence) the reduction of paper has been often insisted on as a matter of justice to the money proprietors, and especially to the money stipendiaries, to restore them to their proper rank in the nation. The Bullion Committee appear to have adopted an opinion nearly similar to this, which they express as follows:—" Your Com-" mittee conceive that it would be superfluous to " point out in detail the disadvantages which " must result to the country from any such gene-" ral excess of currency as lowers its relative " value. The effect of such an augmentation of " prices upon all money transactions for time; " the unavoidable injury suffered by annuitants, " and by creditors of every description, both pri-" vate and public; the unintended advantage " gained by government and all other debtors, " are consequences too obvious to require proof, " and too repugnant to justice to be left without " remedy. By far the most important portion of " this effect appears to your Committee to be that " which is communicated to the wages of com-" mon country labour, the rate of which, it is well " known, adapts itself more slowly to the changes " which happen in the value of money, than the " price of any other species of labour or commo-" dity. " And it is enough for your Committee to " allude to some classes of the public servants, " whose pay, if once raised in consequence of a " depreciation of money, cannot so conveniently " be reduced again to its former rate, even after

" money shall have recovered its value. The future progress of these inconveniences and evils, " if not checked, must at no great distance of " time, work a practical conviction upon the " minds of all those who may still doubt their existence; but even if their progressive increase " were less probable than it appears to your " Committee, they cannot help expressing an " opinion that the integrity and honour of Parliament are concerned, not to authorize longer " than is required by imperious necessity, the " continuance in this great commercial country, " of a system of circulation in which that natural " check or control is absent, which maintains " the value of money; and by the permanency of " that common standard of value, secures the " substantial justice and faith of monied contracts and obligations between man and man."

In my former letters I have so fully investigated the subject of an alleged excess in the present amount of our paper currency, and the influence of that supposed excess on the price of commodities, that I shall not resume it here. If you admit the validity of my arguments on this subject, it will follow, that the evils of which your Committee complain, have been occasioned by the progressive increase of taxation, which necessarily raises the intrinsic price of labour and commodities; and that paper currency is perfectly blameless, having only increased as a consequence of increasing taxation, and accommodated itself to the wants of the public. I shall now take up the subject in another light, and endeavour to shew that if any legislative measure adopted in consequence of the advice of your Committee, could really succeed in preserving the value of money at a fixed rate, the consequence of such measure would be even more unjust and pernicious than those

evils which the measure in question is intended to remove.

So long as we continue engaged in war, heavy and increasing taxation will be unavoidable; and the imposition of taxes must be considered as a call which the government of the country make on their subjects, to give up a part of their property or income for the maintenance of those classes of society who are employed in defending the remainder.

When a considerable number of men are taken from those employments in life by which they have been accustomed to earn their subsistence, and employed in the navy and armies of their country, they must be maintained at the expense of the remainder of their countrymen; thus on all political emergencies which call for great national expenditure and taxation, the means of subsistence become more difficult to procure, and those classes of society who are either unable or unwilling to make extraordinary exertions, proportioned to the extraordinary pressure of the times, must of necessity be deprived of a portion of their usual comforts. Let us suppose, for example, that one individual possesses 10,000*l.* in money, which he places out at interest, and lives upon the 500*l.* per annum which it produces, without troubling himself with business or active employment of any kind; another, actively engaged in agriculture or trade, derives from his employment a revenue of 500*l.* per annum; both these persons are at present in respect to income exactly equal in society, and can afford to live in equal stile.

A new tax which should take from each of them a tenth part of his income, would deprive them both, and that in exact and equal proportion, of a share of those comforts which they had been accustomed to enjoy, but the latter by an increasing at-

tention to his business, or an increasing industry in some productive labour might, and probably would, make up the deficiency which the tax had occasioned in his income; while the former continuing his inactive and unproductive life, would feel more heavily the pressure of the times. But is there any injustice in this operation? Surely not. Every man has an interest in the welfare of his country, and ought according to his ability to contribute equally to its defence; in times of extraordinary difficulty and expenditure, every member of society is called on to contribute his share to the general expense, and must at his country's call, either give up part of his comforts in life, or increase his industrious labours to preserve those comforts he at present enjoys. In very many cases there appears to me no more injustice in this than in the precept of St. Paul, "If any will not work, neither shall he "eat."—I grant, however, that there are many particular instances which form an exception to this rule. Numbers of virtuous and useful men, dependant on money stipends for subsistence, are placed in situations of life which preclude any extraordinary exertions to make up the deficiency occasioned in their income by taxation. This has been the case with several of the clergy, with the officers of customs and excise, and many others, whose cases have been peculiarly hard; but much has been done already, and more ought to be done, by positive regulations of the legislature, to better the condition of those classes.

The aged and infirm, and all indeed who are incapable of productive labour, being left dependant on annuities, or the interest of money for subsistence, labour under peculiar difficulties; they suffer, in common with others around them, by the pressure of taxation, and are incapable of making those efforts which others make to counterbalance that

pressure. Their case, however, is more pitiable than unjust; as every class of society suffers around them, either by giving up part of their comforts, or increasing their usual labours. Moreover, as the depression of these classes has been gradual, and produced by the regular and almost imperceptible alteration of our financial system, it has been, and ought to be, considered, as one of those fluctuations to which human society is perpetually liable, and affords the less ground for just and reasonable complaint.

On what grounds the Committee assert that the depreciation of money has fallen peculiarly hard on the wages of common country labour, I am at a loss to conceive; although they say it is *well known*, that the rate of such labour "adapts itself more "slowly to the changes which happen in the value "of money, than the price of any other species of "labour or commodity," yet they offer no proof of the fact.

I am far from pretending to any extensive acquaintance with the state of the labouring poor in country villages, but so far as my scanty knowledge and observation extend, my opinion is in direct opposition to that of the Committee. I am inclined to believe that the wages of common country labour have increased in full proportion to the decline in the value of money, and that (as a proof of this) there never was a period in our history when country labourers enjoyed in general a greater proportion of the necessaries and comforts of life, than at present. Were I to look out for those who have suffered most severely by the pressure of the present times, and whose condition in life has been permanently depressed, I should search for them principally in our large and populous towns, and among those classes of society whose employments are considered as *more genteel* than the employment

of labourers or artizans; I should expect to find them among the minor class of retail shop-keepers and tradesmen, among men who cultivate the polite arts, and some of the learned professions, &c. &c.— It appears to me, that for many years past the spirit of the present times has almost universally over-stocked those employments in life to which some idea of gentility is attached, and produced the greatest disappointment and misery among those classes; while the laborious employments of life have been exposed to less competition than usual, and afforded rather more than their ordinary proportion of profit.

To conclude this head; if we consider the decreasing value of money in this country (which has been occasioned by the long continuance of an expensive war, and the progressive increase of taxation) as it affects those money proprietors who are capable of productive labour, but unwilling to engage in it, we shall find no reason to admit that its operation in this respect has been in any degree unjust or improper. If we consider it as affecting the money stipends of those who are actively employed in useful labours, the hardship of its operation is capable of an easy remedy, by the occasional interference of the legislature; an interference which has been applied in many instances, and may easily be applied in more. If considered as affecting annuitants and money proprietors, who through age, infirmity, or the like, are incapable of profitable labour and exertion, its pressure on them is in no respect more unjust than on the other classes of society, how much soever we may be disposed to consider their case as more pitiable.

I will now proceed to inquire what would be the consequence of any such legislative interference as would in a compulsory manner preserve the value of money at a fixed and invariable rate, on a com-

parison with property and commodities, in a state of society like the present, with every prospect of continued war and increasing taxation. And in this view of the subject, I will undertake to maintain, that such a measure would be more unjust in its operation on individuals, more pernicious in its general influence on society, and, more incapable of legislative remedy, than the system which has hitherto prevailed in this country, and which your Committee has recommended the legislature to alter.

If a paper currency were always convertible into specie, it is evident that there could be no increase of our circulating medium, unless the balance of payments with foreign nations was in our favour, and brought into the country an increase of the precious metals; while our gold and silver continue stationary in their amount our paper currency must be stationary also; and if the former should decrease by an unfavourable state of foreign transactions, the latter must decrease in the same proportion. That there are cases in which the precious metals *may* increase with sufficient rapidity to support an increase of paper currency to any amount which the nation can desire or want, I do not deny; but the present state of our currency affords a lamentable proof that for many years past, this has not been experienced in England; and amidst the prospects which now surround us, who will venture to predict the probability of our attaining such a situation at any definite period to come? If the directors of the Bank of England are compelled, under circumstances similar to the present, to return to the system of payment in specie, their issues of paper must in the first instance be greatly reduced, and so far as we can at present judge, must afterwards either continue stationary, or decline in their amount. In the

event of our circulating medium becoming stationary in its amount, the value of that medium will continually increase with the increase in the quantity of those commodities which we have to circulate and exchange in our domestic trade, and in the intrinsic cost of labour and commodities occasioned by increasing taxation. Much as I have said on this subject already, it is so important, as to deserve a still fuller illustration in this place.

Suppose the specie now in the kingdom is sufficient to support the credit of a circulating medium of twenty millions only, and the circumstances of the country should continue such as to afford no increase of the precious metals, and in consequence no increase of paper currency for twenty years to come. On the reduction of currency, the price of land, labour and commodities must adapt itself to the amount of currency we retain; or in other words, the nominal price of every article must fall so low as to render this twenty millions sufficient for transacting all the business of the country. Let us further suppose, that in twenty years our population increases 20 per cent. on its present amount, and the products of our agriculture and manufactures increase in the same proportion; the same quantity of money which now suffices for the transfer and circulation of five quarters of wheat, must then be employed in circulating six quarters, and the price of the wheat per quarter must of necessity fall in that proportion.

If taxation also goes on as it has hitherto done, it may during these twenty years add another 20 per cent. to the intrinsic value or cost of labour and goods; the additional revenue of government must be paid out of the circulating medium which we have, and if the amount of that medium admits of no increase, the price of labour and of every species of saleable commodity must decrease to make room

for the payment of the taxes; there is no other possible alternative.

Admitting, then, that in the next twenty years our circulating products should increase in the proportion of 20 per cent. on their present quantity, and the intrinsic cost of these products should increase in the further proportion of 20 per cent. by taxation, the aggregate amount of circulating medium continuing all the time perfectly stationary, it follows indisputably, that at the end of these twenty years, money would have increased 40 per cent. in its value, on a comparison with every other species of property, and the money proprietors would have risen 40 per cent. above their present station in the scale of society.

The consequence of this would be,

First. Most unjust in its operation on individuals. While the active, laborious classes of society were increasing their industrious exertions to meet the increasing pressure of taxation, the money proprietors would enjoy all their usual comforts without any exertion at all.

Every new tax which called for a part of their income of money, would increase the value of their remaining income in exact proportion to the amount of the tax, and preserve their opulence undiminished, while all other classes of society were suffering around them, either by the diminution of their usual comforts, or the imposition of more than their usual burdens in the scale of national industry.

Nor is this all; the increase of 20 per cent. in the amount of the products of agriculture and manufactures, and the consequent decrease of 20 per cent. in their nominal price, would raise the money proprietors 20 per cent. above all the other classes of society, without any additional industry at all on their part. In the former case, the money proprie-

tors continue stationary in opulence, without any of those increasing exertions which the other classes must make to preserve their proportionate rank; in the latter they rise 20 per cent. above the other classes, without any industry whatever.

The measure which we are considering would be, 2ndly. Most pernicious in its general influence on society. This is the natural result of those circumstances which have been stated under the last head. Under the present financial system of the country, our increasing taxation has laid *all classes* of society under the strongest obligations to increase their ingenuity and industry in every employment of life, to meet the pressure of the times.

The beneficial effects of this are every where apparent. In a protracted, and the most expensive war in which Britain was ever engaged, internal improvements of every kind have increased with unexampled rapidity: the improvement of agriculture by inclosures and drainings; of internal commerce by roads, canals, and bridges; the establishment of new manufactures, the increase of buildings of every description, &c. &c. are conspicuous throughout the country, and have excited the astonishment of foreigners, who have visited the island under a previous expectation of finding us on the brink of ruin.

But the system I am opposing would deprive that numerous and important class of society who live on the interest of money, of all inducement to industry, by exalting them in the scale of society by the means of those very circumstances which depressed all other classes; and surely no arguments can be necessary to prove that a system which increases the unproductive inhabitants of a nation, by furnishing a large proportion of those inhabitants with unsought motives to idleness and inactivity, must be injurious to the collective interests of the

nation, and to the general improvement of its agriculture, its manufactures, and its commerce.

Besides, as the possession of capital, or of a circulating medium of universal credit, which can command the exercise of labour, and procure the possession of the various articles of life, is indispensable to the prosecution of every kind of business, the facility of obtaining such capital is closely connected with the progress of improvements.— Every nation which is restricted in its circulating medium, is fettered and embarrassed in the means of its prosperity, and were our own country by any impolitic measure of its government, to become thus limited, the spirit of laudable and beneficial enterprise would be shackled. When the demand for money is continually increasing without any increase of money itself, the capital wanted to embark in new schemes of agriculture or trade becomes very difficult to procure; for though the decline in prices, which I have before stated, would necessarily follow from a restricted amount of circulating medium, and render it possible to conduct an increased business with the same capital, yet this operation would be so unnatural in itself, and so contrary to all the common habits and ideas of a commercial people, that it would be submitted to with great reluctance, and to no greater extent than imperious necessity forced it down.

The scarcity of money would increase its value so as to increase the rate of interest also; the laws against usury might indeed keep down the nominal rate to 5 per cent., but if the actual value of money in the market rose to 7, 8, or 10 per cent. either those laws would be evaded entirely, or the possessors of money would find some means of employing it themselves, and refuse to lend it at all for so much less than it was really worth.

On all these accounts, public improvements would

be impeded in England, by the new measures we are contemplating. While the circulating medium abounds, and credit is high, scarce any opportunity offers for the profitable employment of money in inclosures, drainings, roads, canals, bridges, docks, manufactures &c. but some persons can be found ready to engage in those undertakings. But when money becomes scarce, and the most opulent bankers are prevented from lending their credit to the public beyond a certain limited amount; when this scarcity renders capital difficult to procure in sufficient quantity, and impossible to procure at all, without paying either directly or indirectly, an exorbitant interest for the use of it; the spirit of enterprise and improvement must languish, even among men who possess great and substantial property adequate to the risk of new undertakings, and who are therefore the most proper persons to engage in such undertakings.

Lastly, I assert, that the evils which would naturally and necessarily result from the new system which your Committee wish to force upon the country, would be less capable of legislative remedy than those evils which arise from our present financial system.

In enacting laws for restricting the amount of our circulating medium, and consequently increasing the value of money, no legislature would attempt to reduce the amount of money possessed by individuals, in order to keep pace with its increased value, and to prevent those individuals from rising above their proper rank in the scale of society. Parliament may enact a law which in its direct and immediate consequences would reduce the nominal value of an estate from two thousand to one thousand pounds, but they certainly would never attempt to compel the mortgagee who had lent one thousand pounds on security of that estate, to take back five hundred in discharge of his mortgage.

The impracticability of preventing injustice in the first operation of the measure, would continue to exist, and to operate through every stage of its progress. At no period could the lenders of money (either to government or to individuals) be compelled to take back fifty pounds instead of a hundred, without an interference so repugnant "to the faith of monied contracts and engage-"ments between man and man," and so directly calculated to destroy the security of property, as to forbid any legislator from proposing or supporting such a measure. While the money proprietors were rising in the scale of society at the expense of all other classes, and increasing in opulence by the very means which produced national and general distress, the evil would be seen and lamented, but on the system we are considering, it could not be remedied.

Money stipends paid to individuals, either by government or by private members of society, might indeed in most cases, and probably would, be decreased to keep pace with the increasing value of money; but it would be always difficult to ascertain the exact proportion in which they ought to be reduced, and still more difficult to effect the reduction. To increase the wages of labour, or the amount of salaries, is always easy, when those who have to make the increase are able and willing to pay it, but to decrease those wages and salaries is always difficult, and meets with opposition.

Having extended this letter to so great a length, I shall employ the next in investigating the effect which a reduction of circulating medium would produce on our foreign transactions.

I am, &c.

LETTER VIII.

Dear Sir,

In my seventh letter I have endeavoured to prove, that a compulsory return to the system of payments in specie by the Bank of England, and by country bankers, must in the present state of affairs produce a material reduction in the aggregate circulating medium of the nation; and that such reduction would operate in a very partial and unjust manner on the different classes of society at home, without producing any national benefit at all sufficient to counterbalance the evil.

I shall now proceed to maintain, that such reduction of the circulating medium could not possibly produce any advantageous effect on our intercourse with foreign nations; the circulating medium being wholly adapted to internal trade, and any modification which we are capable of giving it, a matter of no moment whatever to foreigners.

It appears to me, that your Committee must have conceived an idea of some considerable advantage to result from the proposed alteration of our currency in respect to foreign trade, though I cannot but lament that they have not stated with more copiousness and precision the manner in which they expect this advantage to arise.

Most of their observations on the connection between paper currency and the price of bullion, and the influence of both these on the rate of foreign

exchange, I have examined already at considerable length.

There are other points of view, however, in which the subject may be considered, though your Committee have not explicitly stated them; and as I conceive that it is a subject of considerable importance, and that much misconception may exist respecting it, I will devote this letter to a more copious discussion of it. I will examine more fully the nature of that commercial intercourse which is carried on between independent nations, and endeavour to establish the proposition which I have just now advanced, viz. That our circulating medium is connected solely with internal trade, and that any modifications which we are capable of giving it, are matters of no moment whatever to foreigners.

Although your Committee appear unwilling to admit that the high price which bullion has lately acquired in this country, has been occasioned by a scarcity of the article, yet I am sure they will concur with me in thinking, that it is very desirable for the nation to possess a greater quantity both of gold and silver than it at present does, especially in the event of our bankers returning to the system of payments in specie; and as our stock of precious metals can only be increased by further importations from abroad, it is highly important to inquire by what means such importation may be procured. That we can never obtain this bullion from foreigners without purchasing it by something equivalent, and that while the balance of foreign payments is against us, our stock of it must decrease instead of increasing, are self-evident propositions; to increase our exports of merchandise, to diminish our imports, to reduce the foreign expenditure of government, or to bring over foreign

capital for investment in England; these are the only possible methods of accomplishing the object. With the foreign expenditure of government, or the international transfer of capital, our present inquiry has no concern; I shall consider it merely as a question of commercial import and export, and endeavour to prove that the modification of currency which your Committee recommend, would have no influence in diminishing the amount of our imports, or increasing that of our exports.

It is extremely difficult to form an idea of the precise sentiments of the Bullion Committee on this head, as they have not been pleased explicitly to state them, but I can conceive that many persons in the kingdom, and perhaps some of the members of your Committee, might be disposed to reason thus:

"If an unfavourable balance of foreign payments has occasioned the scarcity and dearness of bullion, the most proper method of turning the balance in our favour, and thereby bringing back into the nation the specie and bullion we have lost, is to increase the export of merchandise. The increase of our paper currency having raised the price of our manufactures to an exorbitant height, has tended to diminish their sale in foreign markets, but by reducing the circulating medium, the price of every article of export will decline, and we shall be enabled to sell them in much greater abundance." However plausible this argument may at first sight appear, it will be found on examination to be as completely delusive as any of the former.

I very readily admit, that if we could procure a real diminution in the price of our exports, either by those mechanical and scientific improvements which enable us to manufacture at a less expense of labour, or by the repeal of those taxes which

render labour itself so dear, the argument thus assumed would possess considerable weight; but, Sir, a reduction in prices, occasioned by the diminution of our circulating medium at home, is, so far as foreign nations are concerned, a merely nominal thing; by applying equally to every kind of property and merchandise, to our imports as well as our exports, it would have no other effect to a foreigner than that of increasing the value of the currency of England, without producing any alteration whatever in the *intrinsic value* or *comparative prices of* merchandise.

This will appear very clearly from a familiar example.

A merchant in Portugal sends me this year a pipe of wine, which I sell to net him £40. and agreeable to his order I send him in return 40 yards of broad cloth, which I have purchased for him at 20*s.* per yard. Next year our circulating medium is reduced to half its present amount, and the price of every article of merchandise falls in the same proportion. But how is the Portuguese merchant affected by the change? He will neither get more nor less cloth in return for his wine, and will therefore continue to trade to the same extent as before and to no greater. His pipe of wine next year will still purchase 40 yards of cloth, and therefore it is matter of indifference to him what nominal value we affix to either of them. The only consequence is, that the circulating medium of our country is doubled in its value by being reduced to half its former quantity, £20. in England having become to a foreigner of as much value in the purchase of our goods as £40. was before. Consider the importer and exporter as different people, and the case will remain the same; the wine merchant in Portugal will sell his £20. bill on England to his neighbours who want to remit for cloth, for as

much Portugal money as he gave last year for £40. Thus the rate of exchange would be doubled in our favour without enriching us at all.

On such a plan the final balance of trade in our favour would be reduced to one half its present nominal amount, but supposing the exchange to rise in proportion, and a pound sterling to sell for twice its present quantity of foreign money, the balance would become the same as at present.

In assuming that a reduction of our circulating medium would raise all foreign exchanges in our favour to the full amount of that reduction, I may perhaps have gone farther than experience would in all cases warrant; I have done it, however, for the purpose of placing the argument in its most favourable light, and if in that view no national advantage would result from it, it will be still less difficult to prove, that we should derive no benefit from the reduction in any other way.

Let us now view the subject in another light, and suppose that the exchange would not fall in the above proportion, but the reduction of our circulating medium render exports really cheaper to foreigners.

The Portugal merchant might say, I will purchase your cloth at half its former price, and send you bullion for the amount; but I will not sell you my wine at half its usual rate; I will rather send it to another market where I can obtain three-fourths or two-thirds of what you used to give me. In this way we might, by reducing our exports to half their price, bring back much bullion in return, but what is to become of our power of importing? As cheap sellers we might find additional customers, but as cheap purchasers who would be obliged to supply us? No foreign nation would do it while they could obtain their usual prices elsewhere; and in many cases they might find it adviseable to give

up the cultivation or manufacture of such articles as we use, rather than reduce the prices to a degree proportionate to our reduction of currency.

Supposing, again, that the new system, by reducing the price of imports and exports in exact proportion, should produce no increase or diminution in the quantity of those imports and exports; and that bills of exchange should liquidate all our commercial transactions abroad except the balance, what is to become of that balance?

If remitted in bullion, we should obtain less of the latter, as the balance of trade, than at present.

If our present exports amount to 50,000,000, and imports to 44,000,000, the balance is 6,000,000 in our favour; reduce the price to one-half, and the exports become 25,000,000, the imports 22,000,000, and the balance 3,000,000.

At the same time, the expenditure of government abroad would undergo no reduction; bullion or coin have their intrinsic price both abroad and at home, and a quantity of either exported for public account would go no further with foreigners in consequence of their increased value with us.

I have entered into all these details for the purpose of shewing, that in whatever light the subject is considered, no increase of exports or national benefit could be reasonably expected from that merely nominal decline in prices which the reduction of our circulating medium would produce.

The truth is, the commercial intercourse of nations with each other, is regulated by the *intrinsic value* of those commodities which each has to spare; and this value is fixed by the proportion between the supply and the demand: the supply and the demand which are found, not in this or that particular nation, but in the great commercial market,—the whole civilized world. If Russia now gives to England a ton of hemp in exchange for a ton of lead,

having found the intrinsic value of these articles (estimated by the above rule) to be exactly equal, she would continue to do so, whatever change of nominal prices might take place. Portugal would also give her pipe of wine for forty yards of cloth, till she could find some other nation which would furnish her with a greater quantity of cloth of equal quality in exchange for the same quantity of wine.

It is this equality of intrinsic values which regulates the commerce of the world, and whatever change takes place in the nominal price which one nation puts on its commodities, other nations will exactly balance, by a proportionate advance or decline either in the nominal price of their merchandise or in the rate of exchange.

But why need a reduction in the price of our exports be now considered necessary? The decline in their amount arises from political obstructions which impede their arrival in a foreign market, and not from any decreased demand for them occasioned by their extravagant cost with us; it has been given in evidence before your Committee, that British goods have lately sold on the Continent for 1 or 200 per cent. above their cost, owing to the small quantity we have been able to get over; and after all that has been said on the subject, experience has not yet proved that any other nation has been able to maintain a successful competition with us in foreign markets. When trade is unfettered by political restrictions, the prices both of imports and exports naturally find their proper level; the greater nominal price we charge for exports, the more we can afford to give for imports, and thus the one will ever balance the other, while their intrinsic values continue equal; if legislative interference could enable us to produce a greater quantity of goods for exportation, and find a profitable sale for them in foreign markets, or if it could persuade us to

be content with a smaller quantity for import and consumption, it might be usefully employed at present in England; but this I fear is beyond its power; and should you condescend to ask my opinion of the best steps which Parliament can now take to promote the benefit of trade by regulating prices, I should reply, as the French merchant to Colbert, "The best thing you can do for us is to leave us to "ourselves."

Your Committee have observed, "That in the "event of the prices of commodities being raised "in one country by an augmentation of its circu-"lating medium, while no similar augmentation in "the circulating medium of a neighbouring coun-"try, has led to a similar rise of prices, the cur-"rencies of these two countries will no longer con-"tinue to bear the same relative value to each "other as before. The intrinsic value of a given "portion of the one currency being lessened, while "that of the other remains unaltered, the exchange "will be computed between those two countries "to the disadvantage of the former."

The doctrine contained in this paragraph appears to me to be much more remarkable for its truth than for its importance; that a rise in the price of commodities in one country, by an augmentation of its circulating medium, will be accompanied by a corresponding rise of prices in those neighbouring nations with which that country trades, or by an advance in the rate of exchange against it, I fully admit; but the *disadvantage* which the Committee have discovered in this operation, is, in my opinion, completely imaginary. This will be best elucidated by an example.

In the trade between London and St. Petersburg, I have considered hemp and lead as prominent articles of barter, and the intrinsic value of a ton of each to be nearly equal; while the exchange of St. Peters-

burg on London is 30*d.* sterling per ruble, and the price of lead in England 25*l.* per ton, the Russian exporter must charge 200 rubles per ton for his hemp, to enable him to carry on the trade upon just and equitable principles; if an augmentation of the circulating medium of England raises the price of lead to 30*l.* per ton, it will still exchange for no more than an equal quantity of hemp (while the intrinsic value of these two articles remains unaltered), and the Russian merchant will meet this alteration either by raising his hemp to 240 rubles per ton, or by advancing the exchange to 36*d.* per ruble. It is a matter of the utmost indifference to England which of these does, in fact, take place; as Russia has no concern whatever with the modifications of our circulating medium, she will increase her prices or advance her exchange to correspond with our advancing prices, and there is no shadow of reason to complain that any disadvantage arises to England in consequence. To those who have not minutely considered this subject, some further light may perhaps be thrown upon it, by the mere relation of what has lately passed, and is now passing in the commercial world, under the immediate observation of every English merchant engaged in trade with Russia. This great empire has two ports on the Baltic, from which goods nearly similar both in quality and price are largely exported, St. Petersburg and Riga. The currency of Riga consists principally of specie, which being possessed of intrinsic value, undergoes no depreciation; but the currency of St. Petersburg consists almost solely of bank-notes, which are *issued by the government*, and *forced* upon its subjects in payment of the various items of public expenditure. During the last two or three years, those general causes which have raised the continental exchanges against us, have had their full operation at Riga, at which place the fluc-

tuations of exchange have been nearly parallel to its fluctuations at Hamburgh. At St. Petersburg the case has been nearly reversed; within the last two or three years the Russian government has been engaged in expensive wars with Sweden and Turkey, without an adequate provision of national finances; and to meet those expenses has issued and forced into circulation an excessive quantity of its own paper, so as to reduce the value of that paper, and of the general currency of St. Petersburg, to less than one half its usual rate. While those political and commercial causes, which have turned the exchange of Riga to our apparent disadvantage, might be expected to operate in nearly an equal degree at St. Petersburg; they have been so greatly overbalanced by the depreciation of the currency of the latter port, as to reduce the exchange of St. Petersburg on London from its usual standard of about 30*d.* per ruble, to 14*d.* or 15*d.* and sometimes even still lower. But neither the rise of exchange at Riga, nor its decline at St. Petersburg, are matters of much importance either to Russia or England in their commercial intercourse with each other; the prices of goods in Riga have declined a little below their common rate, in consequence of the disadvantageous exchange; while the prices at St. Petersburg have more than doubled to counterbalance the depreciated currency there; but the cost of goods in sterling money has been preserved in due equilibrium; a ton of hemp at St. Petersburg is purchased by a quantity of English money, nearly equal to the quantity which is paid for a ton of equal quality at Riga; and the sterling cost of goods at each port bears its usual and proper proportion to the cost of those articles in England which are usually exported to Russia.

To you, Sir, and to practical merchants in general, these details will appear tedious and uninter-

esting; but I conceive they may not be equally so to other classes of society, and that some even of our legislators may not be fully acquainted with them. I have considered the subject in various lights, for the purpose of establishing a very simple, but very important proposition, viz. that the circulating medium of a nation is a matter of internal convenience alone; and that the modifications which it undergoes, either from political or commercial circumstances, are matters wholly uninteresting to foreigners, and productive of no *real* influence on external traffic. If, then, I have succeeded in proving, that the measures which your Committee recommend would be productive of much injustice and disorder at home, and perfectly nugatory in their operation abroad, is it too much to infer, that those measures are practically unwise, and that the best step which Parliament can take with reference to our circulating medium, is to leave it quietly to itself, and never to attempt a compulsory return to the system of payments in specie, till they are perfectly sure that the circumstances of the country will bear it? Till the return of peace and tranquillity, or of some other circumstances productive of a favourable balance of foreign payments, has brought back into the country specie and bullion enough to enable us to return to the original principle of banking, without producing evils more serious and alarming than those which they wish to remove?

I am, &c.

LETTER IX.

Dear Sir,

In the preceding eight letters I have fully examined what appear to me to be the most prominent and interesting parts of the Report of your Committee. They have besides made a few incidental observations which I shall now briefly notice.

Page 3rd. (8vo. edition) the Committee find, "that in the course of the month of March last, "that is, from the second of March to the 3rd. of "April, the exchanges with Hamburgh, Amsterdam, "and Paris, received a gradual improvement."

This improvement of the exchange, I would observe, was certainly not occasioned by any diminution in the issue of Bank of England notes, that issue having during the period alluded to been gradually increasing; but it may be very evidently traced to the cessation of purchases for British account, which in that early season of the year took place on the Continent, and especially in the Baltic ports; and to the remittances for the exports of 1809, which were then beginning to come round; it being well known to practical merchants that our imports of foreign goods are generally drawn for, at, or before, the time of their shipment, while we give credit for our exports, often for a considerable time.

Page 7. They adduce the evidence of the late Sir Francis Baring, that "during the seven years' war "and the American war, no want of Bullion was "felt in this country," for the apparent purpose of

proving that its present high price with us cannot be attributed to the circumstances of the war, otherwise the same effect would have been produced in a proportionate degree by every war in which we have engaged.

Were this testimony of the worthy baronet perfectly correct, it would not greatly serve the cause which it is adduced to support; there is much difference both in the duration and expense of different wars, and in the financial circumstances of a country at the period when any particular war is commenced. The seven years' war was attended with considerable expenditure on the Continent of Europe, and though it may be true that no scarcity of gold was then experienced, yet I have shewn that its price rose above the Mint price during a considerable part of that period, and declined again in the succeeding years of peace. This seems to prove that the export of bullion was more considerable than its import, otherwise it will be difficult to account for its advance in price, as nothing in the domestic currency of the nation is alleged by the Committee to occasion it.

The Earl of Liverpool himself has admitted, that during the American war much of the coin of the country was exported, but that war having been preceded by about fourteen years of peace, the precious metals might have accumulated so much before its commencement as to enable us to bear the expense of the war without a very perceptible impoverishment. Only nine years elapsed from the termination of the American war to the commencement of the war with France, which in its very earliest periods drained away our cash by continental loans and subsidies of such unprecedented amount as to occasion the stoppage of the Bank; and has since, by its long duration and enormous expense, nearly exhausted our remaining stock both of specie

and of bullion. Your Committee, indeed, are so wedded to their favourite system, that they will not admit the existence of a scarcity of gold, but attribute its advancing price to any cause rather than that which must appear to all men of practical experience the most natural and proper one. Mr. Merle, a very extensive home dealer informs them, that his supply of gold for the home trade has been of late much less abundant than formerly; and that he has been sometimes obliged to stand still for the want of it; that the importation of gold, both from Spain and the West Indies has lately decreased, and that Hamburgh which used to supply large quantities, sends none now, nor has any come lately from Heligoland; but because he admits, that there is always gold in the market to be obtained by the payment of a very advanced price, they profess to entertain much doubt of the alleged fact of scarcity. To answer another purpose indeed, they have asserted, that "the "general supply of Europe with gold has been "augmented by all that quantity which this great "commercial country has spared in consequence of "the substitution of another medium of circula-"tion." Upon this admission it appears that our gold has been sent out of the country in great quantities, and is not that a very evident cause of rendering it scarce? Is it not also extremely remarkable, that after an admission like this, the Committee should gravely recommend a compulsory return to the system of payments in specie, without even pretending to shew how the gold must be brought back again, to enable the bankers to return to their former system?

Page 10. It is said, "The rise in the market "price of silver in this country which has nearly "corresponded to that of the market price of "gold, cannot in any degree be ascribed to a

"scarcity of silver, the importations of silver having "of late years been unusually large, while the usual "drain for India and China has been stopped."

Whether, in point of fact, silver is really scarce in this country, I have not the means of ascertaining; the exportation to India and China, has of late years been very greatly diminished, but the same causes which have carried our gold to the Continent of Europe, might be expected to occasion an export of silver also, though perhaps in a smaller proportion. It is at least certain that government have no means of ascertaining the exact quantity which has been exported, for though foreign silver exported is chargeable with no duty, and of course the exporters have no inducement to omit entering it at the Custom House, yet many of them might omit such entry from mere inattention, and still more to save the convoy duty, which ships going out in ballast would be chargeable with, were even so small an article as bullion avowedly sent out by them.

Should we, however, admit that no real scarcity of silver exists, its price might be expected to be greatly influenced by the price of gold, and to preserve its usual relative value to the latter metal; were it otherwise, there is no doubt but it would be exported even in preference to gold, as it forms so great a proportion of circulating medium on the Continent, and is there preserved in due proportion of value to gold.

Page 15. They assert, that "The highest amount "of the depression of the coin (below the price of "bullion) which can take place when the Bank pays "in gold, is about 5 1-half per cent.;" and that this depression is produced by the conjunction of two circumstances, viz. the diminished weight of the coin by use, which they estimate at about 1 per

cent. and the restriction upon its exportation, estimated by them at about 4 1-half per cent. more.

It is curious, indeed, to observe on what a slender foundation the above assertion rests. "It appears "by the evidence," say they "that the difference "between the value of gold bullion which may be "sworn off for exportation, and that of the gold "produced or supposed to be produced from our "own coin, which by law is convertible only to "domestic purposes, amounts *at present* to between "3s. and 4s. per ounce."

But is this any proof that the difference between gold which is and that which is not exportable can never exceed that limit? No calculation, I conceive, can be more vague and indefinite. If the importation of gold was sufficient to supply domestic manufactures, and to keep besides full pace with the export demand, the price would be invariably the same both to exporters and home manufacturers, whether the circulating medium of the country consisted of coin or of paper. On the other hand, if the Bank were to pay in gold, and guineas become as plentiful as ever they have been in the nation, yet were the laws which prohibit their exportation either strictly enforced or conscientiously obeyed, it is possible enough, for exportable gold to rise not only 3 or 4, but 10, 15, or 20 per cent. above the price of that which is not exportable, while the balance of foreign payments continues against us.

There neither is nor can be, any determinate limit to the difference we are considering, as it depends almost solely on the balance between conscience and interest in the minds of those who have the precious metals in possession. If all the coin and bullion in the country were now in the hands of unprincipled men in whom interest decidedly predominated, they would swear it all off for exporta-

tion, and sell none for domestic use below the full export price; but if no one would venture to melt or export a guinea, the price of exportable gold would rise still higher than it is.

Great stress is laid on the opinions of an eminent continental merchant examined before the Committee, whose acquaintance with the practical detail of exchanges and commerce appears to have impressed his examiners with more confidence in some of his theories than the arguments he has adduced to support them will warrant.

" That gentleman states," say the Committee, " that the exchange cannot fall in any country in " Europe at the present time, if computed in coin " of a definitive value, or in something convertible " into such coin, lower than the extent of the " charge of transporting it, together with an ade- " quate profit in proportion to the risk attending " such transmission. He conceives, that such fall " of our exchange as has exceeded that extent in " the last 15 months, must certainly be referred to " the circumstance of our paper currency not be- " ing convertible into specie; and that if that pa- " per had been so convertible, and guineas had " been in general circulation, an unfavourable ba- " lance of trade could hardly have caused so great " a fall in the exchange as to the extent of 5 or 6 " per cent."

There is much truth in these sentiments combined with a degree of fallacy in the mode of stating them, which is calculated to impress the reader with an erroneous view of the state of the question. The great depression of the exchange below the expense of transporting bullion has been occasioned by the scarcity of exportable bullion or coin in the nation, and the consequent rise of these articles above their natural and proper price. Were guineas sufficiently abundant to supply every demand for

them, and those guineas either legally or clandestinely exported, the exchange would be preserved within the limit which the expense and risk of their exportation naturally prescribes.

But it is neither just nor candid to represent this scarcity of guineas (as the quotation above appears indirectly to do) as the result of those legislative measures by which our paper currency is at present regulated; those measures having not been the cause of withdrawing guineas from circulation, but the consequence of guineas being previously withdrawn, and the means of preventing that from producing more unfavourable effects. From March 1797, to July 1799, the exchange was not depressed though paper currency had ceased to be convertible into specie, because the supply of gold in the nation was fully equal to the export demand.

This gentleman traces the first great depression of the exchange with Hamburgh with very evident propriety to those political causes which impeded the export of British goods to the North of Germany, and turned the balance of trade against us, "many more "bills being in consequence to be sold than could "be taken by persons requiring to make payments "in England;" and then proceeds to observe "The "exchange once lowered by those circumstances, "*and bullion being withheld in England to make up* "*those occasional differences*, the operations be- "tween this country and the Continent, have conti- "nued at a low rate, as it is only matter of opinion "what rate a pound sterling is there to be valued "at, not being able to obtain what it is meant to "represent." If this gentleman by the latter expression only meant that it is matter of continual uncertainty to the merchants of the Continent, what quantity of *exportable* coin or bullion can be obtained in England in exchange for a pound sterling of our domestic currency, as the price of such exportable money is continually fluctuating, his obser-

vation is correct. The rate of exchange of Hamburgh on England is of course governed by the probable advance in price of exportable money above that which is not exportable; bullion is not withheld from discharging our foreign balances, but the fluctuations of its price do, in fact, render it a "matter of opinion" to a foreigner, how much a pound sterling of British currency is worth to him when he wants it remitting to his own country.

But on examining this gentleman's evidence more in detail, we find him advancing several theories which, do not appear so solid and defensible as the above. "When paper is not convertible into cash," says he, "it only represents, in my opinion, an "ideal, and not a real value; subject to public opi-"nion, and consequently liable to the very great "fluctuations, which public opinions are subject "to." When paper not convertible into cash is issued on funds of doubtful credit, its value is certainly in great measure ideal; and subject to a depreciation proportioned to the general opinion of the insufficiency of those funds; but this gentleman fully admits, that the paper of the Bank of England is not of this description, "having never "heard the solidity of the Bank of England doubt-"ed, either at home or abroad." How then, let me ask, is the value of such paper to be considered an "ideal and not a real value?" Suppose a merchant at Hamburgh to hold a bill on London for 100*l.* payable in bank-notes at the latter place; there is very little difficulty in ascertaining its "*real* "value," independent altogether of the caprice and fluctuations of public opinion. If he wants to purchase British goods, he knows what quantity of them his bank-notes will procure, and the value of that quantity in his own country; if he prefers the precious metals, the market price of bullion in England, and the expense of transmitting it to the

Continent, will determine at once the actual value of his bill: I can see nothing ideal in this.

This evidence, however, carries his ideas of public opinion to very great lengths of practical operation. He avows his belief, that "The balance of trade "with the Continent of Europe is now considerably "in favour of this country," and on being asked whether the present unfavourable state of exchanges could exist with a favourable balance of trade, he replies, "I have lately changed my opinion on this "subject, and do not think that this balance of "trade is the only regulator of the exchange when "bullion is withheld; but in that case public opi-"nion is substituted, for the same exchange may "continue to take place at a reduced rate, if both "parties are satisfied."

On this subject I shall remark,

1st. If the balance of payments were really in our favour at present with the Continent of Europe, bullion must necessarily be imported from thence to liquidate that balance.

2d. If we could suppose bullion to continue at its present high price in England, while the balance of payments with the Continent was in our favour, I admit, that notwithstanding that favourable balance, the exchange might, and would, be depressed below par; not indeed through the influence of public opinion, or because the drawers of bills on England would be "satisfied" with selling them low, if they could by any means avoid it; but because the bullion remitted to England, would sell so much higher than our currency as to defray the expense of bringing it over, and leave a considerable profit beside. If bullion were now 15 per cent. above the Mint, and the expense of bringing it from Hamburgh 5 per cent., there would remain a profit of 10 per cent. upon its importation into England, and while that profit could be obtained, those who had to make remittances from the Continent would rather

send bullion than purchase bills, unless they could obtain bills at or about 10 per cent. below par.—But,

3d. To suppose it possible for the balance of payments to be considerably in our favour with the Continent of Europe at the very time when the price of bullion, especially of exportable bullion, is so much above its ordinary rate, is a paradox which, in my humble opinion, it will require no little ingenuity to solve. The Committee have stated, "That in the course of the last year there have "been very considerable importations of gold into "this country from South America, chiefly through "the West Indies," and also that during the same period "There have been large exportations of it "to the Continent." The latter circumstance, indeed, is so notorious, that I cannot conceive how it is possible for any man practically conversant with the present operations of trade to entertain a doubt of it. That the high price of gold arises principally from the demand for exportation, is evident from the fact, that gold which can be exported, is higher by 3 or 4*s.* per ounce, than that which cannot be exported; and if it is not exported to the Continent of Europe, where else can it be supposed to go? If the balance of payments with Europe were in our favour, the continental merchant must of necessity send over bullion to liquidate it, as nothing else can do it; and choice would coincide with necessity, while its present high price in England affords so great a profit on its exportation. But if we were now actually importing bullion from Europe as well as America, it would soon become so abundant as to decline to, or even below, its regular standard price.

The continental merchant does not seem to me to be either judicious or fortunate in the theory we have just now examined; but in other parts of his evidence he appears to greater advantage, and has made some useful observations, to which the Com-

mittee would have done well to have paid greater attention. On being asked, "Has not a large quantity "of circulating specie a powerful tendency to "steady the course of exchange?" he replies, "Yes, "certainly, *when its importation and exportation are "not prohibited.*" This answer fully corroborates what I have before advanced, viz. that the present currency of England has undergone no depreciation at home, but appears depreciated only on a comparison with exportable treasure. Were specie the only circulating medium at present in England, and its quantity ever so abundant, yet if the export were effectually prohibited, the exchange would derive no benefit from it. The coins of the nation would be depreciated on a comparison with exportable bullion, to as great an extent as bank-notes are at present, and 4*l.* 10*s.* would be paid in guineas for an ounce of that bullion, as readily as it is now paid in paper.

There are many other observations made by this gentleman, which my limits will not permit me to consider at length, but I cannot refrain from transcribing two or three of his observations respecting the Bank of England.

"I do not know of any paper currency on the "Continent that is not convertible at all times into "cash, which is founded at all upon a similar sys-"tem of solidity to that in this country, where al-"though the paper may not represent what is ex-"pressed upon the face of it, it does represent a "something in fact equally real, though not ap-"plicable to equalize the balance of trade." And again,

"There is no government bank on the Continent "that rests upon the same principles of solid foun-"dation as that in this country, where the princi-"ples adopted are the same as would be followed "by any prudent individual in his own concerns, "and where the advances to government are both

"optional and limited to what appears a very small "proportion of their capital, and which, as well as "their other issues, is convertible, and comes round "at short periods, substituting a moral for a physi- "cal tender; which in many cases, when it rests "upon a solid foundation, is far preferable for in- "ternal circulation."

From these extracts it would appear, that the Committee have gone rather too far in asserting that this gentleman's evidence involves the principle, "That bullion is the true regulator both of the value "of a local currency, and of the rate of foreign ex- "changes." Considering the present circulating medium of England in the light of a local currency alone, he does not represent its value as materially affected by the absence of specie; it is only in our transactions with foreigners that he complains of any depreciation, and that depreciation occasioned by the advanced price which must be paid above the currency of the country, to procure any treasure of an exportable nature.

The Committee go on, p. 31. "There cannot be, "for any long period, either a highly favourable or "unfavourable balance of trade; for the balance "no sooner affects the price of bills, than the price "of bills, by its re-action on the state of trade, pro- "motes an equalization of commercial exports and "imports."

If trade were in all cases the only medium of pecuniary intercourse between nations, this would be undoubtedly true. When a long continuance of favourable balance had brought into a country as much bullion as its domestic wants require, it would cease to import any more, by increasing its imports, or diminishing its exports of ordinary articles of merchandise; on the other hand, the continuance of any highly unfavourable balance for any considerable length of time, would exhaust a nation of its precious metal, till it could pay an unfavour-

able balance no longer, but must of necessity equalize its imports and exports of merchandise, or cause the latter to preponderate.

But a country which is continually expending considerable sums in subsidies and military operations abroad, must necessarily preserve the balance of trade in its favour, or the foreign expenditure of its government could not long be defrayed; and this balance of trade may and must be as constant and considerable as that foreign expenditure which it has to discharge; were it otherwise, the surplus of expenditure would by degrees drain away its precious metals, till the nation was compelled to alter its system. This is precisely the case with our own country. The balance of trade appears to have been almost continually in our favour from the earliest records of history, but our insular situation, and our love of political importance abroad, has induced us to engage in so many foreign wars, especially on the Continent of Europe, as to squander away far too great a proportion of those exportable riches which the industry of our agriculturists, manufacturers and merchants, has continually brought into the country, and for the last seventeen years this foreign expenditure has so much exceeded the balance of our trade, as to occasion our present exhaustion of bullion.

In pursuit of their favourite object, of representing our present paper currency as excessive in its quantity, and depreciated in its value, the Committee have adverted to foreign countries for examples of such depreciation, occasioned by an excess in the issue of their paper.

The most remarkable examples of this depreciation, they tell us, are to be found in the history of the "Paper Currencies of the British Colonies in "North America in the early part of the Last Century, and that of the Assignats of the French Republic;" in "the money speculations of the Aus-

" trian government in the last campaign, and the " present state of the currency of Portugal."

They might have added, " and in the present " state of the currency of St. Petersburg," and a little further research into the commercial and financial history of nations would have undoubtedly enabled them to extend the list to a much more considerable length.

Unfortunately, however, for their argument, none of these paper currencies are at all analagous to the present circulating medium of England, or can be brought into a fair comparison with it; they were all issued by the governments of their respective countries, and *forced* upon the people in payment of the public expenditure; and in what respects such paper differs from the present Bank paper of England, I have so largely considered in my fifth letter, as to render it unnecessary to resume the subject here.

The Committee themselves are aware, that the paper alluded to above cannot be paralleled with the paper of England, and therefore go on to observe, that in the instances they have quoted, " The " excess of paper has been usually accompanied by " another circumstance which" they are constrained to admit, "has no place in our situation at present,— " a want of confidence in the sufficiency of those " funds upon which the paper had been issued."— " Where these two circumstances," they add, " ex- " cess and want of confidence are conjoined, they " will co-operate and produce their effect much " more rapidly than when it is the result of the " excess only of a paper of perfectly good credit."

In my opinion, a paper of perfectly good credit cannot be long issued to excess; to be permanently excessive it must be forced into circulation, and whatever paper is so forced, must be more or less deficient in credit.

After skirmishing at a distance, and exploring

both Europe and America for examples, which when found are nothing at all to their purpose, the Committee come at last to close quarters, and produce three instances in which they conceive the paper of the United Kingdom has been depreciated by its excess.

Their first instance is in Scotland, where they inform us, that "about the end of the seven years' war, "banking was carried to a very great excess," in consequence of which bankers' notes became "de-"preciated, in comparison with specie."

That those notes were so depreciated, the Committee have satisfactorily proved, in the account which they have given us of the state of the exchange between Scotland and London; but it is unnecessary to seek more information than the Committee's own narrative affords, to enable us to ascertain the true causes of that depreciation, and to shew that they are wholly inapplicable to the subject of our present inquiry.

The Scottish bankers at that period had "a prac-"tice of inserting in their promissory notes an op-"tional clause of paying at sight, or in six months "after sight with interest, by which clause the con-"vertibility of such notes into specie at the will of "the holder, was in effect suspended."—And in addition to this,

"The Edinburgh banks, when any of their paper "was brought in to be exchanged for bills on Lon-"don, were accustomed to extend or contract the "date of the bills they gave, according to the state "of the exchange; diminishing in this manner the "value of those bills, nearly in the same degree in "which the excessive issue had caused their paper "to be depreciated."

Can any thing further be necessary to shew, that a paper like this bears no affinity to the present paper currency of England? The optional clause subjected the holders of those notes to the inconvenience of

being kept long out of their money, when it suited the convenience of the bankers to postpone their payment; and it also exposed them to an extra risk of the insolvency of those bankers; while the arbitrary power assumed by the bankers of drawing bills upon London in payment of their notes, at almost any date which they pleased, occasioned a further loss of interest to the public, and lessened the real value of the payment.

"This excess of paper was at last removed by "granting bills on London at a fixed date—and by "an act of Parliament which prohibited the op- "tional clauses."

How much soever Parliament and the nation may be indebted to the Bullion Committee for publishing this piece of Scottish intelligence, it will not be readily admitted to prove any thing at all to their purpose.

From Scotland, however, they proceed to England, yea to "the Bank of England itself," and endeavour to shew, that "the experience of this great institu- "tion, within a very short period after its first esta- "blishment, furnishes a very instructive illustration "of all their foregoing principles and reasonings."

When I first approached this tremendous paragraph in the order of my reading the Committee's Report, I could not forbear exclaiming to myself, What! bank-notes, Bank of England notes depreciated in value, at the very time when any of the holders who pleased could at once exchange them for specie! the thing is impossible! I can assure you, Sir, with great sincerity, that my curiosity was not a little excited to discover by what novel species of reasoning so strange a paradox could be defended; but on carefully perusing all that the Committee have said on this subject, and comparing it with other and more copious accounts of the transactions of the year 1697 (the time to which they refer) I can scarcely find any thing in it which pro-

perly applies to the system of banking; the distresses of the Bank being occasioned solely by the then state of the specie of the kingdom. The facts were simply these: For several years the silver coinage of the nation had been gradually debased by wearing, clipping, filing, &c. and by the introduction of many false and counterfeit coins into circulation, till the intrinsic value of the silver coins was reduced to about one half of the nominal value; guineas sold for thirty shillings each; foreign exchanges were depressed, and the evil rose to so alarming an height as to render the interference of government necessary. By the advice of the great Mr. Locke, the whole of this debased silver was called in for recoinage, and replaced to the possessors with new coin of full weight and purity, though at an expense of near three millions sterling, which was defrayed by the nation at large. The Bank of England had taken this debased silver at its full nominal value by tale, and therefore may be reasonably supposed to have amassed a considerable quantity of it, for which it had given its notes in exchange. While the silver was recoining at the Mint, the whole nation suffered much inconvenience by the want of it in circulation, and great demands were in consequence made for cash at the Bank; but the Bank itself having, in common with others, sent in its silver for recoinage, was unable to procure enough for the discharge of its notes. In this state of things, the urgent want of silver in circulation, and the temporary inability of the Bank to advance it, occasioned their notes to be at a discount, which was once as high as 17 per cent. but in the course of a few months, when the whole of the new coinage was issued from the Mint, the Bank went on with its payments as usual.

The Committee assert, that part of the distresses which the Bank then experienced were occasioned by an over-issue of its paper, the directors having

lent money not only by discount, but upon real securities, mortgages, and even pledges of commodities not perishable. If this were the case I can only observe, that the Bank directors have since become more prudent in the advance of their notes, and therefore the Committee's remarks on this subject have no application to the present state of their affairs. While the principal part of the silver coins (which then amounted to several millions sterling) were withdrawn from circulation for the purpose of recoinage, it may reasonably be supposed that an additional quantity of bank-notes would be required to replace them; and the very circumstance which rendered such extraordinary issue necessary, would also increase the difficulty of discharging any part of that issue in specie to those who desired it. The Committee conceive they have sufficiently proved the existence of an excess in the issue of Bank paper at that time, by observing, that "Parliament "consented to enlarge the capital stock of the Bank, "but annexed a condition directing that a certain "proportion of the new subscriptions should be "made good in bank-notes." To me this excess appears a matter of doubt or the remedy at least problematical; for when these notes were brought into the Bank as stock, they might easily be re-issued if the public were willing to take them.

Upon the whole review of this subject, I am inclined to consider the experience of the Bank of England, in 1697, as a merely temporary matter, originating in circumstances which have no existence now, and entirely inapplicable to the present state of things.

From Scotland and England the Committee proceed to Ireland, and detail at some length the proceedings of a Committee of the House of Commons in 1804, for the purpose of proving that the paper currency of Ireland was at that period excessive in its amount and depreciated in its value.

Though I cannot undertake in this place to enter

into a full examination of that Report, which indeed in a great measure involves topics that I have already discussed, and which need not therefore be introduced again, yet I will venture to offer a few remarks upon it.

1st. Though the Committee of 1804 assert, that the Bank restriction in Ireland arose from no want of specie in that kingdom, but was only introduced in consequence of the adoption of a similar measure in England; and though they endeavour to prove that the balance of payments had afterwards been in favour of Ireland, yet these ideas derive little or no confirmation from the facts disclosed in evidence and detailed in other parts of the Report.—The export demand is admitted to have raised the price of guineas very considerably above paper, and the scarcity of silver, by its transmission to England, was so notorious, that notes under twenty shillings, (called in Ireland silver notes,) were issued in provincial towns by tradesmen of the lowest description, even bakers, millers, shoemakers, &c.—If specie was abundant in Ireland when the restriction bill was passed in 1797, and the balance of payments for several subsequent years in favour of that country, it will be difficult to assign any adequate reason for its scarcity and dearness in 1804; had much of it been locked up in the coffers of bankers in consequence of the restriction, the high price might be expected to bring it forward for sale, especially as the bankers who possessed it would find it a dead and unproductive stock, while they were not liable to be called on to pay it in exchange for their notes.

2d. That the paper currency of Ireland was, at that time, really depreciated on a comparison with specie, is fully proved by the evidence before the Committee, because guineas were sold in Ireland at the rate of twenty-three shillings each in paper money; but there is a difference between the situ-

ation of Ireland and that of England, which ought to be noticed here: in the transactions of England with foreign countries, the coins of the realm cannot legally be exported to liquidate an unfavourable balance, and, therefore, the law will not allow those coins to be sold above their nominal price; but all the foreign transactions of Ireland being negociated through England, and guineas the common medium of circulation between the two countries, those guineas become the instruments of discharging the balance of payments in all the foreign transactions of Ireland, and stand in the same relation to the currency of that country as exportable bullion does to the currency of England. This circumstance is of importance to be kept in mind, as there is a material distinction between the depreciation of paper in the internal circulation of a country and its depreciation on a comparison with exportable treasure; the former, I conceive, only takes place, when the paper is issued on funds of doubtful solidity: the latter may exist when the credit and stability of paper are unquestionably good, and, under certain circumstances may even be applied to specie itself: when the coin of a nation is ever so pure in its quality and abundant in quantity, yet, if it cannot be exported, it will in the event of an unfavourable balance of foreign payments be depreciated on a comparison with bullion.

Other causes for the depreciation of Irish currency are mentioned by the Committee. "Forgeries were multiplied, particularly of the smaller notes substituted for gold; additional silver currency became necessary, and, as it was not supplied by the Mint, its place was either filled by small notes, even as low as sixpence, without the checks against forgery attending those of larger value, or base coin was fabricated and forced into circulation."

It is further worthy of remark, that Irish bank-

notes were depreciated as much, on a comparison with Bank of England notes, as they were on a comparison with specie; and that, too, at a time when the Bullion Committee would have us to believe that Bank of England notes themselves were depreciated. This is a farther proof that the depreciations so much complained of in the paper both of England and Ireland, amount to no more than this; that when bullion or coin, or any kind of money of an exportable nature becomes scarce in a nation through the unfavourable state of its foreign transactions, such exportable money will rise above its natural price, without any reference at all to the internal circulating medium.

3d. It appears by the evidence, that the legal interest of money in Ireland was 6 per cent. while the Bank of Ireland was prohibited from taking more than 5 per cent. for its discounts; on this account it were not to be wondered at if the issues of the Bank became really excessive, but whether in point of fact they were so or not, does not appear to me so clearly decided. Your Committee assert, that between the period of the Irish Report (June 1804) and January 1806, the notes of the Bank of Ireland were reduced from about 3,000,000 to 2,410,000*l.* but whether the notes of the private bankers in that country were reduced during the same period, the Committee are unable to state. From 1806 to the present time, they admit that Irish Bank paper has been gradually enlarged to about 3,100,000*l.*; but as I have no information before me of the rate of exchange between Ireland and England since 1804, I can found no argument on any of those fluctuations, and must therefore dismiss the subject, for the present at least, without any further remarks.

In their examination of the present amount of paper in circulation, and their attempt to prove its excess, the Committee have gone so far as to

assert, (page 63) that "The quantity of currency "bears no fixed proportion to the quantity of "commodities; and any inferences proceeding "upon such a supposition, would be entirely "erroneous."

If, by *fixed* proportion they mean only this, that it is difficult, or even impossible, to ascertain the exact proportion which the circulating medium of a country must bear to the annual amount of its sales of property, the assertion may be admitted as correct; but if they intend, as I conceive, to insinuate, that the products of agriculture and manufactures may go on increasing without an increase of currency, the assertion will scarcely be defensible. An increase of currency must be required by an increase of commodities, though it is certainly possible for other circumstances to operate in counterbalancing this increased demand. The Committee imagine they have discovered such counteraction in "the skill which the great money "dealers possess in managing and economising "the use of the circulating medium." "Your "Committee are of opinion," say they, "that the "improvements which have taken place of late "years in this country, and particularly in the district of London, with regard to the use and economy of money among bankers, and in the mode "of adjusting commercial payments, must have "had a much greater effect than has hitherto been "ascribed to them, in rendering the same sum "adequate to a much greater amount of trade and "payments than formerly. Some of those improvements will be found detailed in the evidence; they consist principally in the increased "use of bankers' drafts in the common payments "of London; the contrivance of bringing all such "drafts daily to a common receptacle, where they "are balanced against each other; the intermediate

"agency of bill-brokers; and several other changes "in the practice of London bankers, are to the "same effect, of rendering it unnecessary for them "to keep so large a deposit of money as formerly."

In times like the present, when money is generally scarce, we may be assured that no wise man will lose interest upon it, by keeping an unnecessary quantity in possession; and that, therefore, the economization of paper will be carried to the greatest practicable length. Indeed, I am so far from thinking with the Committee, that the increase of bank-notes has during the last thirteen years been unaccountably large, that I can hardly conceive it to have kept full pace with the wants of circulation, and am therefore of opinion that some improvement has really been made in economizing them, or a still greater quantity must of necessity have been issued. Most of the economizing plans which the Committee have mentioned are of such a nature as to render it scarcely possible to ascertain the precise degree of their influence; but the common receptacle they allude to, or what the London bankers call the "clearing-house," at which the clerks of those bankers meet every night to adjust their balances for the day, is of a more cognizable nature.

The Committee have examined a gentleman of the name of Thomas who it seems is the inspector of this clearing-house, but his testimony is decidedly against their idea of any recent improvement having there taken place. He asserts, that "the sys- "tem of clearing has been in existence about "thirty-five years," and though a new arrangement had been made about fourteen months before the time of giving his evidence, it did not at all alter the amount of bank-notes passing. He further asserts, that the quantity of business done at the clearing-house has very considerably increased of

late years, but that there has NOT been any improvement in the system of late years, so as to reduce the quantity of bank-notes necessary for making payments. I must observe here, that this is by no means the only instance in which the Committee have made a report in direct contradiction to the evidence before them; but were it my business to select all these contradictions, and animadvert upon each of them separately, my remarks would extend to a considerable volume.

In page 66th. of the Report, we find the following paragraph.

"It appears to your Committee, that the experi-"ence of the Bank of England, in the years 1793 "and 1797, contrasted with the facts which have "been stated in the present Report, suggests a dis-"tinction most important to be kept in view, be-"tween that demand upon the Bank for gold for "the supply of the domestic channels of circula-"tion, sometimes a very great and sudden one, "which is occasioned by a temporary failure of "confidence, and that drain upon the Bank for gold "which grows out of an unfavourable state of the "foreign exchanges. The former, while the Bank "maintains its high credit, seems likely to be best "relieved by a judicious increase of accommoda-"tion to the country; the latter, so long as the Bank "does not pay in specie, ought to suggest to the "directors a question, whether their issues may not "be already too abundant."

The distinction between a demand of gold for domestic hoarding or circulation, and a demand for foreign exportation, appears to me, so far as the direction and management of the Bank are concerned, a matter of very little practical importance. To say nothing of the difficulty which the Bank directors would find in ascertaining the precise purpose for which gold is demanded at the Bank, while their notes are payable in specie, the drain operates equally in

reducing their stock of guineas, to whatever purpose those guineas are applied, and a complete exhaustion of their stock would reduce them to the necessity of stopping payment. In February 1797, the combined operation of a foreign and domestic demand reduced their specie and bullion to 1,272,000*l.* and had they not then stopped payment, a very little further time would have taken away their last guinea. Were the Bank directors to keep on hand a quantity of specie equal to the whole amount of their notes in circulation, the issue of those notes would be productive of no profit whatever to the Bank, and of very little accommodation to the public; their cash must always be considerably less than the amount of their notes, to enable them to conduct their business to advantage, and a great and sudden demand of gold arising from even a temporary want of confidence at home, will always endanger their credit. The Committee say, that while the Bank maintains its high credit, the domestic demand seems likely to be best relieved by a judicious increase of accommodation to the country; but as the credit of the Bank must come to an end the moment its specie is exhausted, an increase of accommodation to the country by an increase of its issues of paper, at a time when so many of the holders of that paper are running upon them for payment, must certainly tend to drain away their specie more rapidly, and accelerate their final stoppage.

When your Committee represent the drain upon the Bank for gold for exportation as growing out of the state of the foreign exchanges, they seem to suppose that the export of gold is a matter of voluntary speculation, and that the dealers in bullion determine by the state of the exchange whether to export it or not. This, however, is, I conceive, an erroneous view of the subject; when the balance

of foreign payments is against us, bullion or specie *must* be exported to liquidate it, and it is the state of the bullion market, which governs the rate of exchange, not the rate of exchange which regulates the export of bullion; this is a distinction of importance, as much inaccurate reasoning may arise from mistaking the cause for the consequence.

When the balance of foreign payments is against us, and the Bank directors are liable to pay their notes in specie, they are under the necessity of advancing gold to all who bring in their notes, whatever suspicion they may entertain that the gold is intended for exportation; it is literally impossible that they should be able in any degree to restrain the export, or regulate the foreign demand.

But while bank-notes are not convertible into specie, the Committee are of opinion that an unfavourable state of foreign exchanges should suggest to the directors a question, whether their issues may not already be too abundant? this deserves more particular examination.

It is at all times in the power of the Bank directors, by lessening the amount of their discounts, to fetter the operations of trade, and greatly curtail the amount of mercantile speculations; but whether this measure would effectually answer the purpose of regulating the state of foreign commerce, and the rate of exchange, may, I think, admit of a doubt. When the operations of government are out of the question, an unfavourable exchange arises from the excess of imports over exports, and nothing can restore it to par but an increase of the latter or a diminution of the former. A sudden diminution of the circulating medium would be general in its operation on every branch of business, both foreign and domestic, and lessen

for a time the amount both of imports and exports; but as both imports and exports would be lessened in equal proportion by the measure, it would not materially alter the balance; the balance of trade would still continue against us, and continue to produce an unfavourable exchange, though the amount of that balance might be in some measure lessened.

But if it be always a matter of doubt, whether a diminution of the issues of the Bank would operate favourably on the foreign transactions of the nation, there are some cases in which such diminution would be evidently dangerous in the extreme.

Suppose, for example, that when our trade with the Continent had gone on for a considerable time in a favourable state, and the exchange kept at, or above par, a failure of our harvest should occasion an extraordinary and pressing demand for corn, and render it necessary to import a considerable quantity. A few millions laid out in the purchase of this most necessary article, would turn the balance against us, depress the exchange, and advance the price of bullion, precisely in the same way as the large importation of corn did in the year 1800.—Upon the principles of your Committee, the Bank directors should limit the issue of their paper as soon as they find the exchange is turning against us, but in the case we are supposing such limitation might be productive of national famine.

In every view in which it can be considered, commerce is one of the most delicate subjects with which legislators can interfere, or to which any violent measures can with safety be applied. If left to itself it will seldom fail to find its proper level, but to invest either government or the Bank directors with the power of restraining it at pleasure, would be productive of consequences far more alarming and dangerous than those which at present exist.

The last observation I shall notice is this,

"A return to the ordinary system of banking is "on the very ground of the late extravagant "fall of the exchanges and high price of gold pe-"culiarly requisite."

The Committee might with at least as much propriety have said, that it is on this very account peculiarly difficult and impracticable; but the above passage forms a striking specimen of the general strain of their Report, and shall give rise to a few concluding observations.

Throughout the whole of their Report, the Committee appear to have been occupied with an inquiry after that state of currency and circulating medium, which is theoretically best, without paying any adequate degree of attention to those violent and uncontrollable circumstances which have introduced a different system, or to the practicability of returning, in the present state of the nation, to the ordinary system of banking. The restriction of payments in specie was at first rendered necessary by the foreign expenditure of government, and those circumstances in which this restriction originated, have ever since continued, and even gone on with accelerated force; but the Committee almost without noticing these circumstances at all, have gone about to prove, that this restriction *ought* never to have been introduced, or only to have been of temporary duration. Admitting the correctness of these sentiments (which I am fully disposed to do) they are scarcely of any importance in a practical view; the mischief is done; the specie is gone; and no alternative remains, but to make the best we can of our present situation.

In the same theorising spirit, the Committee have gravely determined, that gold *should* be again brought back into circulation; they have even recommended the legislature to *compel* our bankers

to pay it in a limited time, with as much confidence as if they supposed that a legislative *fiat* could either bring it into existence, or recal it from abroad; our poor impoverished bankers must find it as well as they can; the Committee in its wisdom, determines that gold *shall* reappear, but very wisely leaves to the directors of the Bank of England, the arduous task of effecting that which it recommends, that Parliament should determine upon as necessary to be effected. Upon this rock, the Committee appear to me to have split throughout! they have inquired after what is desirable, rather than what is practicable; and by recommending the forcible adoption of measures which the present circumstances of the nation are unprepared to bear, they have prescribed a remedy for our national malady, which is not only insufficient to cure it, but calculated to produce greater evils, than those we at present endure.

In the approaching session of Parliament, the report of the Bullion Committee will, no doubt, be very amply discussed; and trusting that the proceedings of your honourable House will then be distinguished by those enlightened and comprehensive views of general policy, and that strict regard to private justice, which ought ever to characterize the legislators of a great nation,

I subscribe most respectfully,

Dear Sir,

Your most obedient Servant,

JOHN HILL.

Cottingham, near Hull,
Nov. 8, 1810.

C. Stower, Printer, Paternoster Row, London.